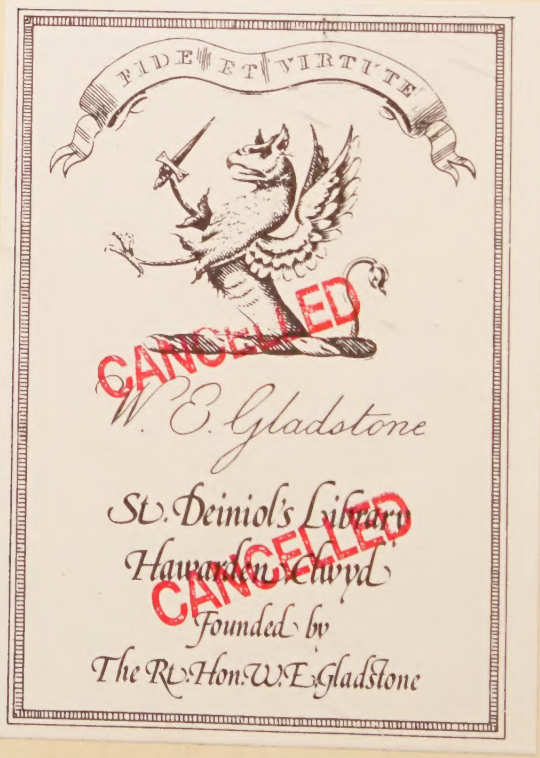
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FREE TRADE

BOOKS ON RECONSTRUCTION

THE BRITISH COAL INDUSTRY

By GILBERT STONE

THE NEW HOUSING

By Mrs. SANDERSON FURNISS

SELF-HEALTH AS A HABIT

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FREE TRADE

CHAPTER I

DIFFICULTY OF THE PROBLEM

FREE TRADE is the name given, by common consent, to the policy of admitting foreign goods in general into a country without taxing them at the place of landing. No country, as a matter of fact, has complete free trade. Britain, before the war, put import duties on alcoholic drinks, tea, coffee, sugar, cocoa and tobacco. But none of these duties was imposed in order to give an advantage to home traders. Excise duties were imposed on our own alcoholic drinks, to balance the import duties; and the duties on tea and coffee and sugar, articles which we do not produce in this country, were levied for the sake of the revenue they bring. In Holland, also, a number of small customs duties were laid for revenue purposes only; there, as here, there was no attempt to 'protect' home industries by making particular foreign goods dearer than home made.

'Protection' is the historic name for the policy of

keeping up by import duties the price of articles that are produced at home. The general policy, on the contrary, of letting foreign goods compete on an equality in the markets of a country with its own produce, whether raw or manufactured, is what is meant by free trade; and the rival policy, properly known as 'protection,' is what has been advocated in this country since 1903 under the name of 'tariff reform.' This last name was oddly borrowed from the free trade movement in the United States, which calls for 'tariff reform' in the sense of cutting down the high existing tariff, or schedule of protective duties on imports. In Britain the label has been made to mean the setting up of a new protective tariff. At present (summer, 1919) there is no clear official or organised policy of protection before the country; but there has been embodied in the Budget a plan called 'imperial preference,' under which things already taxed (whether under the special war duties which were set up to *check* imports or under the standing duties on liquor, tea, tobacco, etc.) are allowed to enter at lower rates when they come from British possessions beyond seas.

It is commonly understood that this plan is chosen as a first step towards setting up new import duties on foreign manufactured and semi-manufactured[1] goods; and the purpose of this book is to inquire, as carefully as may be, whether that

[1] Such as leather, pig iron, tin and other metals, which are really the raw material of great industries.

policy, followed in most countries and latterly much advocated here, is really in the general interest of industrial countries in general and of our own in particular. The question is of immense importance, and cannot be too seriously discussed. It is too often pronounced upon without any proper study of its many difficulties; and the reader is invited to treat it as one upon which no decision should be come to without an attentive study of the lessons of the past.

It is told of an eminent man of science that from his youth up, upon whatever problem he might be engaged, his great concern was, in his own words, 'to know the *go* of the thing.' No scientific terms could better express the aim, and the difficulty, of every inquiry into what we call the 'law' of a natural process. It generally turns out that 'the *go* of the thing' is the hardest problem of all. Botanists and gardeners, between them, know a great deal about the life of plants. The scientific man has minutely studied the structure of parts, and the differences between the orders; the gardener knows what conditions and what tendance are needed to make each kind grow best. But to this day neither gardeners nor botanists are agreed as to what really causes the upward motion of the sap. So, in the study of weather, the men of science take immense pains, and employ a multitude of delicate instruments, to measure wind pressures and rainfall all over the earth, and to think out the causes of storms; and

the practical man, the sailor for instance, is weather-wise to the extent of being often able to some extent to foresee the way of the wind. But neither he nor the meteorologist can yet tell us with any certainty what brings about rain; why for weeks together the clouds never break; or why at other times 'it rains' every day. There are at least six theories of how rain is 'made.' Five of them are reasoned scientific guesses, never proved by experiment; and the sixth makes out that rain is caused in several different ways. The outcome is, so far, that weather cannot be confidently predicted more than a little way ahead.

Yet again, as to medicine, one of the most distinguished of English physicians has lately been telling us that the mass of new experience gained in the war has made the doctors feel that they have to learn their business anew, finding if they can 'the *go* of the thing' in regard to many even of the diseases they are able to treat with fair success, and still more in regard to those which baffle them. Yet the doctors in general have had to spend a number of years in systematic study before they are held qualified to prescribe for our ailments.

If, then, it is so hard to get a true knowledge of 'the *go* of the thing' in matters of natural science, where nobody denies that things happen by regular 'law,' we can well understand that in such a matter as the immense process of commerce all over the world, where changeable human

wills are always at work, it must be a difficult business to know what makes trade go well or ill, why some countries grow rich and others stagnate, what causes 'depressions,' why some trades flourish and others languish in the same or in different countries. Yet average men of business in all ages have wanted to prescribe for trade by laws and taxes.

This means a multitude of new risks. Everybody in business knows more or less about his own; though some men plainly have special gifts of 'making things pay.' But all commercial history goes to show that the power to run one's own business well does not mean the power to plan good laws for the whole of trade. To understand *a* trade is not to understand trade, which is, as it were, the blood circulation of the whole commonwealth. Men naturally see things in the light of their own interests: it does not at all follow that the laws they would like to make for trade are in the interests of the nation as a whole. If the seller is to legislate for the buyer, whose advantage will be considered?

Men, too, tend to be shortsighted even about their own interests. When the seller legislates for the buyer, he is very apt to forget that to put the buyer at a perpetual disadvantage may spoil his own market. In the course of history we find him even forgetting for the moment that he too must be a buyer. So long, then, as trade laws were made at the wish of sellers who organised themselves to

'pull wires,' trade everywhere progressed very slowly. It remains true, however, that even in the modern world, in which trade has grown so enormously, it chronically suffers from ups and downs, and its promoters are constantly asking to have its pulse felt, so to speak. In most countries, consequently, it is always being prescribed for; and in our own there was a strenuous conflict going on about 'fiscal policy' for ten years before the war.

That problem again presses upon us, and cannot be put aside. Plain men may excusably plead that they cannot come to an opinion for themselves when men of business, and even the political economists, are divided as to the proper treatment. But where men cherish their political rights they must take some pains to learn how to use them if the rights are to remain worth having.

One of the great causes of confusion in the discussion on tariffs is that those who want them will hardly ever be at the trouble to check their own arguments against each other, and to face the meaning even of the statistics they themselves produce or ask for. In 1905, the 'Tariff Reform Commission,' while actually asking for a tariff in order to keep up wages, declared that the low price of foreign goods coming into our markets was due to the low wages paid in the countries that sent them. But those were the very countries that already had tariffs, which were declared to be the only means of keeping wages up. Tariffists in

general could not see that the two statements were in flat contradiction. The Commission further reported (proceeding on the figures before 1904) that our great cotton industry was in a 'stationary' position. The historic facts are that the cotton exports of 1903 were valued at £73,000,000; those of 1904 at £83,000,000; those of 1905 at £92,000,000; those of 1896 at £99,000,000; those of 1907 at £110,000,000; and those of 1913 (after a fall from 1908 to 1910) at £127,000,000.

It is obvious that such an immense expansion as this disposes once for all of the assumption made in 1904 that the cotton trade was in a stationary position. Had such an expansion taken place under tariffs it would have been triumphantly claimed as proving beyond all possibility of dispute that the tariff system was incomparably the best for our trade. But the tariffist agitation has gone on all the same, because its promoters attach no weight to any evidence or argument that may be adduced against them. From the first, they grounded their case largely on the unemployment alleged to occur under free trade. It was shown many times over that our unemployment under free trade had been immensely less than under protection; and that the protected United States had far more of it than we. But all that evidence too was disregarded; and the agitation went on as before.

In this state of things, it is the urgent duty of every honest citizen to go into the question for himself. If he shirks that duty he is putting his

own and his country's destinies in the hands of any self-seekers who may organise a policy. The voter who puts his political conscience in other men's keeping counts for very little in his country's destiny. If he is not to be a mere pawn in other men's game, he must try for himself to understand 'the *go* of the thing.'

Everything in the history of science goes to show that if any great *general* truth is to be discovered it is as a result of much attention to the facts and long thinking about the processes. It was Newton, not the gardener, who (as the story goes) got the idea of the law of gravitation from seeing an apple fall. It will be trained men, not untrained sufferers, who will discover new general truths about medicine. But 'a trained man,' for this purpose, is not necessarily a professional man of any kind: he is simply a man whose mind has been long and specially concentrated on a particular field of study, and has thought *connectedly* about it while others have attended only to details. The gardener is in his own way a trained man, as is the manufacturer, the retailer, the exporter, the shipowner. The way to find out the best regimen for trade is to study the general '*go* of the thing'; and this is to be done not by merely attending to one's own trade and jumping thence to a conclusion about the whole vast process of international exchanges, but by studying the history of trade and trades, in general and in particular, noting how they have been affected by different laws in

the past and in our own day; and checking by statistical facts all the thousand-and-one general assertions that are made every day by people who want a particular law made.

All this can hardly be done by many men of business. *Great* men of business, men of large intelligence who can think widely on the complexities of trade, have frequently pointed to important truths about it; and in the past we see politicians like Burke and professors like Adam Smith taking much pains to learn what intelligent traders can teach them. And a number of good men of business have taken pains to understand political economy. But even those economists who reject a number of Smith's doctrines admit that he, the retiring man of the study, did immensely more to clear up the subject of 'the wealth of nations' than did any of the traders who helped to make that wealth. Too often, as he showed, they had helped to hinder it by pressing wrong prescriptions upon incompetent politicians who took it for granted that traders must know the best policy for trade in general. The difference between Smith and the men whose prescriptions he fought against was that he strove to get a view of all or many of the facts while they took account of only a few. And he sought for the facts on all sides, among the traders, in books, in histories, and in statistics.

When all is said, however, we shall do well to be modest about the exactitude of our theoretical knowledge. Remembering the confession that has

been made for the doctors, let us recognise that to know *all* about 'the *go* of the thing' is not easy. It is not all a matter of prejudice on one side, though there has been a tremendous play of prejudice on the subject at all times. Seventy years elapsed between the publication of Smith's *Wealth of Nations* (1776) and the abolition of the Corn Laws (1846); and this was not wholly due to wrong thinking on one side. Smith's own reasoning is not seldom astray; and the economists who backed him made their mistakes as well as those who opposed him.

The lesson is that we should all feel we have much to learn, keep our tempers, and be ready to think out afresh, patiently, every new consideration put to us. That is, in short, the only way by which any kind of knowledge is steadily advanced. Even before the war, medical diagnosis had become a very much more complex matter than it was fifty years ago, and amateur opinion on complicated cases had thus become more than ever unauthoritative. But it is probably the case that two doctors out of three pronounce and vote upon questions of fiscal policy with perfect confidence on the strength of a wholly superficial and empirical view of the case. Their prescription is as that of the unqualified amateur in a case of obscure disease. Well aware of the need for a close study of causes in their own business, they see no need for it in the immensely complex problem of international trade and fiscal policy.

When men scientifically trained thus disregard the need for scientific study in a problem outside of their own field, we can hardly expect the required attention from those who have not undergone any special scientific preparation. But there is only the more need to appeal to all and sundry to take a little pains over a question which may involve the well-being of their children and the destiny of their country.

CHAPTER II

THE BEGINNINGS OF FREE TRADE

ONE of the common errors in the popular advocacy of what is called 'tariff reform' is to assume that that is a new or modern policy and that what is called free trade is an old one. There could not be a more complete misconception. The policy of keeping out foreign goods by import duties or prohibitions, or 'making the foreigner pay' in the way of a tax, is simply the very oldest of all. It is the primeval rule-of-thumb of the savage chief, retained by kings and councils, and turned to their own purposes by trade-bodies influential enough to control parliaments. Those then who call free trade a worn-out shibboleth should look to their history. Telling us to reconsider the doctrines of our grandfathers, they are inviting us to go back to those of our great-grandfathers, and of our remote ancestors.

In the history of trade, freedom is the modern policy as against the ancient. Not that it was adopted anywhere for freedom's sake, on a mere theory that freedom must always be a good thing. The first experiments were made by rulers or States

in which the *effects* of heavy customs duties had been reflected upon and seen to be often bad ; and in which a policy of light duties was thought to be likely to promote trade. Such a process of reflection had occurred in the Netherlands even before the war which ended in the United Provinces (as the Dutch Netherlands were then called) becoming independent of Spain. But it was not any profound insight that showed the people of Holland the wisdom of low port dues and customs duties. They could not greatly extend their trade on any other plan.

The Netherlands, as apart from Flanders, had but small natural resources for production. They began to acquire wealth by the two related methods of fishing and sea carriage ; and for the purposes of both kinds of trade it was at that stage plainly necessary to make the charges on foreign ships and goods light. If the Dutch barred foreign ships by heavy port dues, their own ships carrying fish and other cargoes would be equally barred elsewhere. If they put heavy import duties on foreign produce, their own produce would be equally checked. Being by geographical position a 'middle-man' country, Holland became, long before England, a 'nation of shopkeepers.' Her traders secured supremacy in the carrying business by planning different kinds of ships for different trades, looking alike to speed and to economy. Thus she built up the greatest transit trade the world had yet seen. Without timber to build her own ships, without corn-

land enough to feed her own dense population, she became the chief corn-market and timber-market in Europe. And whereas the traders of other countries often spoiled their markets by selling short measure or poor quality abroad, the Dutch authorities established State checks which guaranteed both quantities and qualities. Such methods made trade grow as it had never grown before.

It was only by the wealth and the credit thus acquired mainly by fishing and by transit trade that the United Provinces were able to bear the immense costs of their long struggle with Spain. They had to incur an enormous debt, and to levy terribly heavy taxation, both on incomes and on food. On their own fish, it was said, they paid to the State five times the original cost. But they knew better than to try to 'make the foreigner pay' by taxes which would strangle the shipping trade by which they mainly lived. Always they maintained low customs duties.

It is still common to read that the commercial supremacy of Holland was broken down by the English Navigation Laws, set up by Cromwell and extended after the Restoration. This is a historical delusion, many times exposed. To begin with, the Navigation Laws were imposed with the idea of transferring some of the carrying trade from Dutch to English ships, but not with any hope of ruining Holland; and so far from having any such effect, they for a long time curtailed English trade, while the Dutch greatly expanded. Fifty

years after their enactment, these were admitted by English experts to have been the direct results.[1] The relative decline of Dutch trade, later, came about from two causes. One was that while the Dutch Government maintained the policy of low customs duties for the great European transit trade, their capitalists were allowed to make monopolies of their trade with the Indies and the New World. The other was that when the chief rival countries, France and Britain, began to develop alike their manufactures and their export trade in the eighteenth century, their much greater natural resources inevitably increased their wealth at a greater rate, while Holland, small in area and therefore small (though dense) in population, had always to bear the heavy burden of her old war debt.

Yet Holland never lost her European carrying trade ; and had her rulers been enlightened enough to allow free competition where they maintained monopolies in their trade beyond seas, they might have expanded on that side as they had previously done in the European trade. In a word, they were successful where the circumstances practically compelled them to be free traders ; unsuccessful where they were at liberty to follow the ordinary mercantile instinct of ' beggar my neighbour.' In modern times, under a free trade policy all round, Holland has been once more remarkably

[1] Details and references are given in the author's pamphlet, *Shipping After the War*, 1917. (Cobden Club.)

successful. After 1870, her carrying and transit trade increased more than that of any of the neighbouring countries under tariff systems. The figures cannot be argued away.

It was in the eighteenth century, on the other hand, that British trade began noticeably to forge ahead ; and this progress was brought about, not by the Navigation Laws, which hindered it, but by steps in the direction of free trade. In the early years of the reign of George I his statesmen began taking steps to lighten the burdens on trade ; and in 1721 Sir Robert Walpole made a great reform. During the long wars with France under William and Anne, the sorely needed extra revenue had been largely raised by taxes on exported goods and on imports of raw materials as well as of finished goods. At one stroke Walpole removed the duties from 106 articles of export and 38 articles of imported raw material. As was said of him long afterwards, he found the English rate-book the heaviest in Europe, and left it the lightest.

Unable to go further and take duties off imports of manufactures (a policy in which he would have been fiercely resisted by the manufacturers and others) he did what he could to help the trade of the American colonies by removing some of the vetoes which had been put upon *their* exports of produce to foreign countries. Already in his day men urged that the mother country should get revenue by taxing the colonies. This Walpole

always refused to do, pointing out that the mother country's best advantage from her colonies lay in the expansion of her trade with them. It was the reversal of Walpole's policy, in the generation after his death, that lost the American colonies to the British crown.

Just about the close of Walpole's period, a free trade reform of another kind was begun in Italy. In the last days of the Italian republics, at the close of the fifteenth and the beginning of the sixteenth century, Florence, the capital of Tuscany, had come under the rule of the family of the Medici, who, beginning in trade, became merchant princes and bankers. The trade policy of Florence, even in its free days, had always tended, like that of most other European States, to keep up monopolies and check foreign competition, and the Medicean rule set up a costly and vexatious system of customs, tolls, regulations and checks of every kind on trade, under which both the trade of Florence and the agriculture of the country districts went from bad to worse. In particular, the agricultural region of Siena, called the Maremma, which had come under the rule of the Medici by the overthrow of the old Sienese republic, was reduced to poverty and misery. Such remained the state of those once flourishing parts of Italy under the sway of the Medicean Grand Dukes who ruled it after the Italian republics had all been overthrown by the Spanish and French conquests.

When the last of the native Grand Dukes succeeded in 1723, there was in his dominions a very liberal-minded ecclesiastic, named Bandini, who belonged to one of the old land-owning families of the Sienese Maremma, and in his youth had had experience in managing the estate. He saw that the misery of Sienese agriculture was due to the absolute bar on free trade in corn. All export of grain was forbidden. The agriculturists therefore kept down their production to the limit of what was likely to be consumed; since to grow more was simply to lose it. In a good year they suffered from low prices; in a bad year the people were starved, because no corn was allowed to be *im*ported.

Bandini urged on the Grand Duke and his ministers that the proper policy was to let the producers sell their surplus outside Tuscany. On that footing they would grow all they could. Then even in a bad year there would be far more corn for the home market than would have been produced under the old system; so that the people would have more and cheaper food, and the export of surplus corn would bring in other goods from the neighbouring countries which bought it. Bandini had probably heard of the system of subsidies on exports of corn that was set up in England under William and Mary. Even before their time, the government of Charles II had allowed the export of English surplus corn when the price had fallen to a certain figure. This was a re-

laxation of the old laws forbidding export which had existed in England as elsewhere. Under William there was added to the freedom of export an actual subsidy or bounty upon the corn that was exported. The arrangement was by way of a compensation to the English landowners for the land tax to which they had to submit after 1688.

The subsidy, we can see, was bad and unnecessary. It would have been quite enough for the prosperity of agriculture to *allow* export of surplus corn: the subsidy caused producers to sell abroad rather than at home if they could, thus making English corn cheaper to foreigners than to English people. Bandini asked for no subsidy, but merely for freedom. The native Grand Duke and the ministers treated him as a madman; some even suggested that he should be locked up. It was not till a new dynasty came in that he was listened to.[1] In 1734, largely through the clever diplomacy of Walpole, the risk of a European war over the succession to the crown of Poland was avoided by a series of compensations to the parties interested; and one of these was the granting to Francis of Lorraine (husband of Maria Theresa, afterwards Empress of Austria) the succession to the duchy of Tuscany. In 1737 Francis entered on the succession; and it was under him and his suc-

[1] He wrote an *Economical Discourse* in or before 1737. This was read and acted on by the new ruler, but was not printed till 1775.

cessor Leopold that the principles of Bandini were carried into practice.

The result was that Tuscany, including the Sienese Maremma, became the most prosperous part of Western Europe. Food, industry, wealth, and population all increased as they had never done before; and the example began to impress the thinking men in France, where the agriculture of every province was fettered as that of Tuscany had been. It seems incredible that *within* a kingdom such restrictions should have been set up; but so it was in both Spain and France. In Spain they were abolished by the Italian minister Alberoni during his short period of power from 1714 to 1718; but they appear to have been put on again. In France they lasted down to the reign of Louis XVI. As in old Tuscany, the production of food was thus kept down everywhere to the lowest level at which agriculture could keep going, and the poverty of the people and the tyrannies of landlords (who also were kept poorer than they need have been) prepared the way for the French Revolution.

In all the more enlightened countries, as in Italy, there had been some men who, like Bandini, saw more or less clearly 'the *go* of the thing,' and suggested reforms which would make agriculture and commerce and industry more free. The great difficulty was always to persuade, not merely rulers, but the majority of the people concerned, to give up an old system and try a new one.

Both before and after Walpole, men wrote in England pointing out how all the barriers to trade simply meant that the nations were poorer than they would have been if they had traded freely; but after Walpole's reforms of 1721 no great advance was made for over a century. In France, men began writing privately before 1750 against the restraints on the inland trade in corn between the different provinces; but not till about 1775 was the great statesman Turgot in a position to attempt to abolish them; and the aristocratic and financial opposition aroused by his reforms was so great that when he had been only twenty months in power the king had to dismiss him. Had his policy been maintained, the Revolution would probably have been averted.

As we shall see when we look into the matter in detail, the opposition thus aroused by every attempt to remove obstacles to trade is due to the fact that always *some people profit by such obstacles*, though the majority always lose. The people who profit by the check on trade always organise themselves and make a vigorous appeal, arguing that the loss which a reform would inflict on them is only a sample of what will happen to everybody else. That happened in England at the Peace of Utrecht, made with France in 1713. The Tory Government then in power, being friendly to Louis XIV because Louis was the protector of the son of the exiled James II, aimed at something like free trade with France. But a multitude of

Whig and other traders were afraid of the entrance of French manufactures, and the agitation they set up caused the withdrawal of the proposed treaty of commerce.

Broadly speaking, every class looks to its own advantage. In the days of the Plantagenets, the English nobility wanted free imports so that they could buy cheap the continental manufactures they needed ; and wanted free exports so that they could sell their wool to the best advantage. In a later age the same landowning class kept out foreign corn so that high corn prices should keep up their rents. Manufacturers, again, long insisted that English wool should not go out of the country, so that the home price of wool should be kept low. Often it was declared that the object of the restrictions was to secure employment for labour ; but never did either landlords or manufacturers willingly consent to any rise in wages. And after all the talk of finding work for home labour, the authorities were fain, in Queen Elizabeth's time, to bring in foreign artisans to work up the wool of which the export was prohibited.

As we shall see later, the greatest extension of employment for labour becomes possible only when trade is made free. But unfortunately all the great changes in industry by which employment is in the long run increased are apt to throw *some* men idle for a time ; and so it was made easy to argue that restrictions on trade were in the interest of the mass of the people. Only by patient and careful

study can the truth be found out; and while tariffs and prohibitions are about as old as trade itself, it is only within some two hundred years that the patient study of the whole problem can be said to have been begun.

CHAPTER III

GROUNDS OF RESISTANCE

WHEN, in the reign of Queen Elizabeth, the inventor, William Lee, presented to her majesty a pair of fine stockings made by his knitting machine and asked for a patent, she was greatly pleased, the story goes, with the stockings, but after taking counsel with her advisers sorrowfully announced that she could not give any countenance to an invention which would take away the livelihood of the stocking-knitters. That showed one side of the difficulty of attaining freedom in trade. Lee was fain to take his invention to France, where, however, he fell on troublous times, and died in distress.

Another side had appeared long before Elizabeth's day, when workers in different trades in England made disturbances in protest against the coming-in from the Continent of kinds of goods which they made. Their livelihood, they said, was thus taken away; and they claimed that in their interest the foreign goods should be kept out. They took it for granted that they should be kept in employment by making it impossible for their

neighbours to get goods from foreigners at a cheaper rate than from the home makers; though it might have been thought to be plain that if the foreign goods were either better for the same money, or as good at a lower price, the home producer was either lazier or less skilful than the foreigner.

As a matter of fact, both the gilds of workers and the gilds of traders in every country were always planning in those days to prevent the competition not only of foreigners but of their fellow-countrymen. And it is clear that it was all the same to any man or any group whether the underselling of their goods was done by foreigners or by fellow-subjects. Hence constant jealousies and rivalries between different towns, between towns and neighbouring villages, and between different industrial groups in one town. Even where governments did not interfere, the gilds made restrictions on their own account, and towns and villages fought each other with tolls and prohibitions. But though provinces in some countries were long able to keep up prohibitions against each other's corn, and though governments in our own country long maintained laws enabling masters to keep down wages, it gradually became clear that legal restrictions on freedom of trade and labour *within* a country could not be kept up.

Even this principle took a very long time to establish itself in some connections. Down till quite recently, Paris and other European cities

kept up *octrois* or municipal customs duties upon native produce entering the city by road. In such cases the duties yielded a large revenue, and it is always difficult for a revenue-receiving body to afford to give a revenue up. Tolls upon roads were once the common method of road up-keep in this country; and they still exist at some bridges. But age by age men have come more generally to recognise that every obstacle in the way of free exchange and sale of commodities between any two parts of our own country is to be got rid of as being a hindrance to trade. And this amounts to admitting that hindrances to trade as between any two countries *cannot be an advantage to both, even though each of the two countries regards them as advantageous to itself.*

It is of some importance to be clear on this point. There are still some people who argue that 'protective' tariffs between any two countries may be advantageous to the trade of both. If, however, that were generally true it would follow that tariffs between two counties, or two towns, or two sides of a river, would be good for trade on both sides. But nobody in our time has proposed to set up custom-houses at the ends of bridges over our rivers to collect dues on the goods which pass over them; or at our railway stations to take duties on goods passing through. Without any argument whatever, everybody now feels that such proceedings would be an intolerable nuisance, certainly doing no good to trade; and that the

local or national revenue which might be collected by such means could be far better collected by other methods. Over all the vast area of the United States, there are no tariffs as between States of the Union. Tariffs are set up only at the frontiers, and at the ports.

So we come to this, that nations which would not submit to tariffs as between their own provinces have no scruples about setting them up as against other nations. Do they do so, then, in order to injure each other? Apart from the animosities set up by great wars, no State would now avow such a motive. Do they then take their action in order to benefit themselves? And if so, in the face of the fact that no one believes in any benefit from tariffs as between towns and counties, can *each* of two States who have tariffs against each other expect to benefit? If so, what shape does the benefit take, to begin with?

The common answer on behalf of each State is that by either keeping out, or by keeping up the price of, certain goods which the other offers to sell, it maintains employment for its own population. Now, if country A thus limits the amount of goods of any kind that it takes from country B, it must in the nature of the case tend to limit to the same extent the amount of goods that it can *sell* to B. We say 'tends to.' To say 'does limit' would not be an *exactly* true statement, because countries often do a roundabout trade, as when, say, Britain sends to India and the East, or to Italy, or Brazil,

more goods than she takes thence, and takes from the United States more goods than she sends there. The accounts are balanced only through a whole series of exchanges. But it is quite certain that the less goods we take from other countries *in general*, the less we can sell to them.

Even *this*, however, is sometimes denied, and is often overlooked, by the advocates of tariffs. Many people still seem to suppose that in the trade between nations goods are paid for in cash, as between shopkeeper and customer, or that at least the balance is paid in cash. That this is a bad delusion we shall see in detail when we come to deal with the actual figures of trade. But even without going into figures, a little reflection will show that, though gold does go back and forth in small quantities as the exchanges vary, no nation *can* long go on paying out much more gold or silver than it receives. If there were a large annual loss, trade would soon come to a standstill. No case of such a standstill is known in history. The celebrated statement by a Colonial Premier to the effect that 'a hundred and fifty million golden sovereigns' had to go out of Britain every year to pay for excess imports, revealed only his ignorance. There was never so much gold in the country, and what there was did not go. The fact is that trade between nations in general *can* only be carried on with *things*. It is a barter. And if any one nation is determined to cut down what it buys, it must tend to cut down what it sells.

So clear is this that even some champions of tariffs admit it, and declare that their idea is to 'make the country, as far as possible, self-supporting,' that is to say, to grow all its food and make all the manufactures it needs, as nearly as may be. Since, however, there is no prospect of our people being willing to do without tea and coffee and sugar and tobacco and tropical fruits, and since we cannot grow these or the cotton we need, or raise all the wool and hides we need, it is clear that we cannot hope to be more than partially self-supplying.

It is obviously right, on the other hand, to make our country yield all the food it can, provided that it does not cost us more in capital and labour than it would if we bought it from abroad. And the example of other countries proves that we *might* profitably produce a great deal more than we do. Denmark, for instance, is agriculturally a more productive country than Britain, though she has a worse climate and on the whole a worse soil. And Denmark does this without any system of tariff protection on her own food products. In peace time, anybody could send wheat, meat, or bacon to Denmark, duty free. She is not afraid of competition of that kind, because she knows she can produce, in her own line, as well and as cheaply as anybody else. The moral is that if we are to make the best of our land we had better follow Denmark's methods.

But Denmark, on the other hand, puts import

duties on manufactures; because her manufacturing class, both masters and men, feel they cannot produce as well and as cheaply as the great industrial countries of Europe. Those classes insist on being 'protected'; and the result is that the farming population of Denmark have to pay higher prices than ours do for most things they have to buy—machines, tools, furniture, cutlery, and so forth. The same thing happens in all countries where agricultural production is so abundant as to make imports unnecessary—in the United States, in Canada, and in Australia. A tariff must always be paid by *some* class which gets no benefit from it; and in the past American farmers earning only labourer's wages have had to pay artificially high prices for their clothes, their crockery, their cutlery, and their implements.

This fact brings us back to the central problem of the effect of protective duties on the totality of trade. In old times, as in our own, rulers or governments who put import duties on foreign goods generally said plainly that they did it in order to make or keep employment for their own people. If they had been told that the less they let in, the less of other things they could sell abroad, they would probably have replied that their hand-workers were enabled by their work to buy the home produce, and that thus the largest possible population would be maintained in comfort. And all kings in those days wanted population because they wanted fighting men. But population never

grew more slowly than in the days in which kings took such methods to increase it.

And we can see why, if we follow 'the *go* of the thing.' In the days when raw wool was the chief English export, it went largely to Flanders. As we have seen, it could not long be paid for in gold : if the trade were to continue, the equivalent must come back in goods ; and as England was in good years self-feeding, the only possible returns were such things as wine and manufactured articles. But there were in England some cloth-makers and makers of other goods such as were imported ; and when under Edward III persecuted Flemish weavers were welcomed here, appeals were naturally made to protect native industry by taxing the competing imports. This, again, was to make the goods dearer ; and when this aroused complaint the next move was to demand that wool should be kept within the country, since free export kept the price high. But even if the King had not wanted export of wool to go on in order to furnish him a revenue by his taxes on exports, a veto on such export would affect wool production just as we have seen the veto on corn export did corn growing later in Tuscany. The sheep breeders would not produce wool in excess of the limited market demand ; and when wool export was forbidden this was the effect. Prices fell heavily, and it no longer paid the sheep-breeders to breed so many as before. When, again, under resumed export of wool, cloth exports also expanded, sheep-

breeding in some districts ousted population ; and as landlords had no encouragement to turn pasture land into arable, the export of corn being in turn vetoed or discouraged, the outcome was simply less employment in agriculture, and therefore a worse market for the cloth and clothes made from the wool. On that line neither town nor country could thrive well ; and the chances of marrying and settling down were kept small.

Even when wool was allowed to be exported, the King, as aforesaid, taxed it heavily by way of getting a revenue for his wars. That was a main feature of the fiscal policy of Edward III. Of course war burdens always injure trade more or less ; but even in peace there had to be revenue ; and this, perhaps, has been one of the main reasons for the setting up of tariffs down till recent times. An import duty was so much easier to levy than any other—until smuggling became a fine art, and made a new and terrible trouble, defrauding the revenue and multiplying crime and reckless living.

In one way or another, all through the historic record, we thus see the tariff policy hampering trade and hampering life ; yet we also find always a powerful interest fighting to maintain the existing system. Smuggling itself became a 'vested interest.' More men were ruined than were made rich by it ; but the chance of gain always allured men into the occupation ; and the lucky or shrewd ones wanted the heavy duties to continue in order that they should carry on their illegal

trade. When, therefore, Walpole brought in an Excise Bill which would have killed smuggling by making it unprofitable, the smugglers joined hands with all the people who disliked the Bill, making such an uproarious agitation throughout the country that it had to be withdrawn. A century later, but not till then, everybody knew that Walpole was right.

The modern experience of Britain has proved that with an income-tax and free trade a far greater revenue can be raised than is possible by means of a tariff system. During the World War, neither Germany nor any other European country dreamt of raising such a revenue as we did by taxation. If tariffs were the secret of national wealth, Germany, with her tariff system and her much greater population, ought to have been much richer than Britain. She proved to be much less rich. We shall see why, in a later chapter. But the history of Germany, France, and the United States shows how, in the absence of an income tax system, tariffs are apt to be set up for the sake of revenue.

We have often been told that Cobden was badly wrong when, in 1846, he said that if Britain adopted free trade in its entirety, ten years would not pass before the other countries of the world would begin to follow our example. But Cobden was perfectly right. In 1846, as it happened, we did not adopt free trade in its entirety. Strictly speaking, we have never done so, seeing that we

kept up import duties on wine and spirits, tobacco, tea, coffee, and sugar. But these duties, as was before remarked, are not put on to protect home trade; we charge excise duty on our own beer and spirits to keep up the cost; and the other duties are kept on solely for revenue purposes. But even what we did in 1846, when we took the import duties off corn and many other things, had such an effect that many other countries began to follow our example. The United States lowered their tariff; so did Prussia; and in 1860 Cobden was able to negotiate a treaty of commerce with France which gave our trade there a freer opening than it ever had before. What happened afterwards in the contrary direction was a result of new war trouble.

In the American Civil War, the two sides, having no income tax, had to raise revenue by all manner of taxes on goods, whether imported or home made. After the war was over, the Federal Government was naturally anxious to take the duties off home manufactures, while it had to maintain the others in order to pay off debt. Thus all the American manufacturing industries for many years were propped up by tariffs; and the vested interests thus created fought against every attempt to take the duties off. Similarly in France, after the war of 1870, a great revenue was needed to bear the burden of the war debt and the indemnity, and France, having no income tax, went back to heavy tariffs.

Germany, finally, returned to them for a similar reason. The Prussian Government in those days leant to free trade; but after 1875, when France was seen to be recovering wealth and strength, Bismarck felt he must increase the German Army and Navy. The States of the Empire, however, refused to increase their contributions for that purpose; and Bismarck accordingly planned a tariff. To the landowners he promised duties against American corn, which was then very cheap, and to the manufacturers he promised duties against English goods. The combination of those two great interests with that of the Government carried the day; the tariffs were imposed; and they remained on, with ups and downs, till the World War. Then they all came off. It remains to be seen whether they will ever go on again.

So far, then, we see how, though the burden of tariffs has often been recognised in different countries at different times, there have always been forces which tended to maintain them. In the recent past, further, the manufacturing classes in many countries have more and more scared each other by systematic competition, so that we have seen the queer spectacle of both protected and unprotected manufacturers, in America, Canada, Germany, France, and Britain, all clamouring that they suffered from 'dumping' by the others. *That* might suffice to prove to thoughtful people that there is delusion all round. If everybody is

chronically dumping, and everybody is chronically dumped upon, what can be the use of a tariff ?

We shall consider the dumping problem by itself, later. But dumping, strictly so called, is only an extreme case of the simple trade competition which has always moved manufacturers to call for protective duties against foreign rivals. It will be well, then, first to examine the general case put by tariffists in our own and other countries, apart from questions of revenue-raising, for protecting them from competition by import duties.

CHAPTER IV

PLEAS FOR TARIFFS

THE pleas upon which protective tariffs have been asked for or given are mostly these :—

1. *Rival countries 'had the start,' and so are able to produce more cheaply. The native manufacturer, therefore, must be protected till he 'gets on his feet.' By implication he promises to do without protection when he is once well started.*

2. *Rival countries employ 'cheap labour,' and so can sell cheap. Therefore the native manufacturer must have duties to enable him to pay good wages. In this case he does not pretend that he can do without protection unless foreign wages rise.*

3. *But he promises to maintain employment ; and 'unemployment' is his scare-cry.*

4. *By putting an import duty on manufactures, we can 'make the foreigner pay.'*

5. *Other countries sell us their goods and drain away our gold. The only way to keep it is to make the goods for ourselves. (Then follows plea No. 2.)*

6. *Other countries thwart our trade by putting on import duties against our manufactures. It is right and proper that we should do the same to them. We let in their goods free : they tax ours. Let us hit back.*

7. *By hitting back we can really promote free trade. The only way to make them take off or lower their duties is for us to put duties on. When we retaliate they will alter their policy.*

So plainly is this last proposition untrue that it has latterly been little heard of. All the tariffed countries in the world, broadly speaking, are retaliating upon each other all the time, and still most tariffs go up, not down, save when in some cases, after a long 'tariff war' in which each side loses a great deal of trade, the rates go back to the old figure. Tariffists are fain, therefore, to find some new arguments, such as these :—

8. *The foreigner is 'killing' our manufactures by deliberately underselling them, even at a loss to himself. When they are quite killed, he will be able to charge us any price he likes.*

9. *By this policy, too, he puts out of action our factories which produce war material. We shall then be at his mercy if a war arises between us and him.*

Taking the last pleas first, we may note that sometimes they are quite specious. After the war of 1812 between Britain and America, for instance, as soon as peace was declared, a number of British traders who had accumulated stocks sent many ship-loads of them to try the American market. The result of the excessive competition, in a market in which the buyers were mostly ill able to spend, was that prices fell very heavily and most of the goods were actually sold at a loss. There had

been no idea of 'killing' American trade, but the swamping of the American market had a temporary effect of that nature, and the American manufacturers were put in a position to claim that this had been the object. They made special use of the argument that their production of war material was being made impossible, and they were thus able to get a heavy tariff against foreign goods. Once on, a tariff is always extremely hard to shake off.

Yet, as has been said, the idea, if sincere, was a delusion. The British traders had expected to gain, not to lose, and sold cheap only because they had glutted the market. After all that has been said of the schemes of foreign manufacturers to ruin those of any country, there is no case on record of its having been done. Even the stories told of German plans to 'knock out' certain British manufactures of war material before the war have all turned out on inquiry to be fables. But if there is any truth in the general plea at all, dozens of British manufactures ought to have been extinguished by foreign competition long before the war. Are there any such?

A few British trades used to be spoken of as having specially suffered: 'ruined industries' was the term applied to them. These were in particular:—

1. The sugar-refining trade.
2. Bottle-making and other glass manufactures.
3. The silk manufacture.

It is important to understand what happened in

each case. The British sugar industry was undoubtedly affected by the policy of subsidies to the growing of beetroot sugar in several European countries. The effect of those subsidies was, on a much larger scale, like that of the English subsidies to corn under William and Mary. The countries which gave the subsidies to their growers of beetroot sugar put import duties on foreign sugar, and so their sugar was sold *dear at home and cheap abroad*. This we shall find is the almost invariable result of protection. In the early days of the policy, the British sugar refiners who had worked mostly with cane sugar found themselves heavily undersold, and their workers were thrown idle. When unemployment happens thus as a result of imports from abroad the nation is always called upon to protect its workers by import duties.

But, as a matter of fact, exactly such unemployment is chronically caused by home competition, and by new inventions. It happened when railways did the work of stage-coaches; when machinery did work formerly done by hand; and when State schools did the work formerly done by private schools. There were good private schools as well as bad; and many a hard-working mistress of a private school has been reduced to poverty by State school competition when she had by long years of toil and enterprise built up a good establishment.

Plainly, it would be right that in *all* such cases

alike the State should make some provision for the unemployment caused by its own action or by new invention. But though distracted workmen, faced by starvation, used to smash new machinery, no one ever proposed that protective duties should be levied upon machine-made goods at home in order to protect hand-workers, or that State schools or railways should be taxed in order to help private schools and stage-coaches, or even that innkeepers should have been subsidised after the railways had spoiled their old trade of feeding and housing passengers who travelled by road.

It is only when *foreign trade* causes a disturbance in industry that protective duties are demanded. The idea of retaliating upon 'the foreigner' is always specially attractive. Now, it would have been an act of sheer folly to stop the influx of cheap sugar in order to employ a small number of sugar refiners; though the State would have been well advised to aid the unemployed in some way. Their unemployment was merely temporary. The cheap sugar soon set up far more employment than it took away, by enabling a number of *new industries* to come into existence. The number of hands thus employed was far greater than that of those formerly employed in sugar-refining. What is more, the influx of all that cheap sugar *enriched the nation as a whole* at the expense of the foreign countries which chose to tax themselves in order to set up one industry. It was as if we had found at home so much extra food or material of any

kind in a form which it took very little labour and capital to handle.

The case of the glass industry was different. Here there were no subsidies; and only in some sections of the trade, as in plate-glass making, had the foreign competitor any great advantage. The best sand for glass-making, it is said, is found on the Belgian coast. The Belgian glass-makers, therefore, *ought* to be able to produce the best glass more cheaply than we. But this disadvantage might have been got over, were it not for our own shortcomings. We can spin and weave and sell cotton goods more cheaply than the Americans although we have to bring our raw cotton overseas from America. That is possible because, to begin with, the moist Lancashire climate was found to make cotton-spinning easier than it was in other countries. Other countries, however, learned to use artificial moisture in their cotton factories, and we had in time to do so in ours (for 'sized goods'), even in Lancashire; and still we keep supremacy in the cotton trade because the industry is admirably organised, both as to employers and employed. The trade unions of the cotton-workers are as competently managed as are those of the masters.

With glass, it has been otherwise. Always, in our industrial history, we find the glass trade in trouble over trade disputes. Each side, masters and men, blamed the other; and it is not for us here to attempt to pass judgment. The broad fact

is that the British glass trade was for a long time backward as compared with others, for the reason given. In a troubled trade, capital hangs back, and shrinks from expenditure on new plant, especially if the trade has no very wide outlook. As tariffists are always saying, manufacturers want security. Whether through faults of masters or faults of men, the glass-bottle trade was thus backward in comparison with foreign rivals ; and for a time it lost ground accordingly. Would it have been wise, then, to put a tax on the imports to keep a backward trade on its feet ? By so doing we should simply have been hampering a dozen other industries. The influx of cheap foreign bottles enabled them to expand *their* business, employing more hands, and thus adding to the total national wealth, as represented by the investments of British savings all over the world. And as a result of the tonic policy of free trade, the glass business has been so regenerated that an export which in 1902 was under two millions had by 1913 increased to over five. Few trades have risen more per cent.

In the case of glass, as in that of sugar, the unemployment temporarily caused was small in comparison with the new employment given : the one serious evil was that there was no regular State provision for unemployment until the Act of 1909 ; and even that did not cover the whole ground. But the figures of unemployment year by year show that, while there are special ups and

downs (which we shall have to consider separately) the total amount of employment, from decade to decade, is *always increasing*.

Silk is another exceptional case. It has never been a great industry in this country: and it was always in trouble in the old days in which it was protected by prohibitions. Only in the period when Huskisson withdrew the prohibition and substituted import duties did it prosper greatly for a time, by reason of the adoption of new machinery. Under free trade, for lack of renewed enterprise, it fell back, though it was never extinguished. The broad reason is that silk is the one of the textile industries into which France has always put special energy; and only the most constant assiduity on this side can keep pace with the enterprise which in France has always been put into the trade. French manufacturers in other lines complain in exactly the same way of the unresting competition to which they are subjected by Englishmen. The fact is that the main stress of English energy has gone into the cotton and woollen trades, in which the turnover is so much larger. The silk trade is much smaller in comparison; and it may be that French climate and French artistic training, between them, will always give pre-eminence to French industry at this point. Yet the silk trade too increased its export considerably between 1902 and 1913.

But, says the tariffist, in that case we *ought* to protect our own industry by putting duties on the

French goods, especially seeing that the French put duties upon ours. If they hit us, why should not we hit them ? Such an appeal generally finds a responsive chord in the human breast. Yet when our own overseas Dominions put on duties against the goods of the mother country, which lets in their goods absolutely free, the patriot at home is fain to find that the action is 'only natural,' and to maintain a friendly attitude and temper. Evidently then it is possible to argue out the question as a matter of business and common sense. After all, the tariffist ought not to be angry because the foreigner generally argues the question exactly as he does. The difficulty for him is to forgive us who argue that he and the foreigners are both wrong.

Let us ask, do we help ourselves by hitting back ? or, in other words, whom do we really hit by a tariff ? What is 'the *go* of the thing' ? A foreign country puts an import duty upon certain (or all) of our manufactures. Either she goes on buying our manufactures or she does not. What generally happens is that for a time she buys a little less. For that less quantity, however, her consumers pay more ; because the amount of the duty is added to the price ; and the extra capital that has thus been employed by the importing trader in handling the goods has to earn its profit, which also must come out of the price.

It is possible, indeed, that our exporters and our manufacturers may decide to charge a little less,

so as to keep as much of the trade as possible ; but this will be done only when that particular market is important and trade is not expanding in other markets. It is only in respect of such a very small and temporary reduction of price that any country can 'make the foreigner pay' by putting on a tariff ; and what is got out of the foreigner in this way is always much less than what is got out of the home consumer by the tariff. If, moreover, the foreigner merely lowers his profits and keeps the trade, there is no gain to home employment. The two positions exclude each other ; and the protectionist propaganda at this point refutes itself.

If, on the other hand, a foreign country puts a new duty of 10 or 20 per cent on British manufactures, its own consumers must pay for the goods, if they still take them, from 10 to 12½ or from 20 to 25 per cent more than they used to do. Our manufacturers cannot possibly make such a reduction in their price when there is no reduction in their own costs. At most they can take off from 2 to 5 per cent. Thus the tariffed country is taxing its own people to make the foreigner lose. And as the result of raising prices in its own market is necessarily *to increase its own costs of production* (even in agriculture, if it be mainly agricultural), it in turn gets less for the labour and capital it used to employ upon what it exports.

It is true that invention is always tending to stop increases in the cost of production in many industries ; but that does not affect the argument

here, because such reductions of cost affect all countries alike, save when a particular invention is worked in one country only. The question is, how does a protective duty affect the country that puts it on, in comparison with the other countries whose goods are taxed ? And the answer is that the tariff always taxes and burdens the country that employs it, more than it can burden the others.

It is quite true, of course, that a tariff against us tends to check our industry. That is part of the case for free trade. It follows that if all the countries set up tariffs against each other, industry all round must be worse off to some extent. Less being produced all round, the world would be so much the poorer. But the practical question is this :—

Granted that tariff countries inflict some loss upon us, do they not inflict a greater loss upon themselves ; and can we then possibly lessen our loss by setting up tariffs against them ?

This question was faced by Sir Robert Peel when he tried to persuade other countries to take off their tariffs against us upon condition that we took off ours against them. In general, they refused to ' make a deal.' The fact was that they all needed the *revenue* they got from their tariffs, and, having no income-tax, saw no other way to get it. Peel (though he was willing to cut down the duties on wine and brandy as a means of bargaining with France and other countries) could count upon a continued revenue from spirits, tobacco, and other

articles which we did not produce at home, or upon which we had an excise duty. Having also an income-tax to rely upon, he really had an easier task than they in that regard. He accordingly decided that even if foreign countries would not treat us as we treated them, it was still to our own interest to be free traders. His words are worth remembering :—

"We have resolved at length to consult our own interests, and not to punish other countries for the wrong they do us in continuing their high tariffs upon the importation of our products and manufactures by continuing high duties ourselves." "*The best way to fight hostile tariffs is with free imports.*"

In other words, to continue our high duties was to punish ourselves. This is the central argument for free trade. And it is the argument which the backers of tariffs are least willing to examine. Let us consider, then, in detail, the ways in which a tariff on imports takes effect.

Imported goods may for the purpose of this argument be divided into seven classes :—

1. Foods and drinks which we do not ourselves produce (as, tropical fruits, wines from the grape, tea, coffee, cocoa, and sugar), or which we can produce only in hothouses (as, grapes, peaches, oranges, etc.), or at an uneconomical cost (as, beetroot sugar). Tobacco goes in the same economic class.

2. Foods and drinks which we do ourselves produce (as, cereals, dairy produce, eggs, meat,

potatoes, and other ordinary vegetables, beer and various other forms of alcoholic drink, plums, apples, etc.), or which may be said to compete with some forms of our own produce (as, soya beans, tropical and other nuts, maize).

3. Raw or partly manufactured materials of kinds which we do not ourselves produce (as, cotton, wood pulp, copper in various forms, rubber, petroleum, etc.).

4. Raw or partly manipulated materials of kinds which we ourselves produce (as, wool, hides, iron and tin ores, iron and steel in various forms, cement, stone, tin, zinc, etc.).

5. Manufactured materials which we produce, or which are on the same footing as raw materials for British industries (as, leather, paper, bottles, glass in various forms, lace, embroideries, cotton and woollen yarns, cloths, doors and window-frames, parts of motor vehicles, parts of ships, dyes, chemicals, etc.).

6. Manufactures ready for final use, of kinds which we do not produce (as, Oriental rugs, carpets, metal work) but which may in some degree compete with home products.

7. Manufactures ready for final use such as we do produce (as, machinery, cutlery, locomotives, ships, hardware, boots and clothing, crockery and glass ware, motor-cars and carriages) and which directly compete with British products.

Articles of every one of these seven economic classes have been taxed at various times in various

countries and on various grounds ; those of the first and third for purposes of revenue ; those of the other classes either for revenue or for the protection of native producers. In the revived protectionist agitation which began in Britain in 1903 it was proposed to tax both grain and manufactures, the latter for the sake of our own trade, and the former for the sake of our Dominions, whose corn was to be let in at lower rates than that of foreign countries. To-day, on professed grounds of Imperial Preference, it is proposed to tax almost anything upon which a preference can be given to our Dominions. The main stress of protectionist feeling and argument, however, runs against imports of foreign manufactured and ' semi-manufactured ' goods. Many protectionists still profess to be opposed to any taxation of imports of ' raw materials ' ; but as soon as we go into details it is found that very few are really opposed to *all* taxation of raw materials, and that the great majority want to tax materials which are to some of our industries on exactly the same footing as raw materials are to others.

For instance, leather is virtually raw material for the boot-making and leather-goods industries ; paper is so for printers, publishers, and newspaper-producers, as well as for many traders who use large quantities ; tin is so for tinplate-makers ; bottles are so for producers of liquid foods and beverages, preserved fruits, etc. ; and steel and iron are so for shipbuilders, machine-makers, etc.

If, then, it is undesirable, as so many protectionists admit, to tax raw materials, it would seem to be equally wrong to tax such imports as those just named. The avowed reason for not taxing raw materials is that it raises cost of production and so hampers our foreign trade in the finished article. (This, it will be observed, is an admission that we cannot 'make the foreigner pay' on the raw material he sends us, though it is alleged that we can make him pay on the finished or half-finished goods.) Why then should it be proposed, by those who admit this, to tax imports of such manufactures as leather, steel, bottles, paper, and so on?

The protectionist answer is that we ought to tax such imports in order to protect our home industries and secure employment for our own workers. This answer, it will be seen, entirely evades the point as to the raising of cost of production, and the hampering of export trade, which are admitted to arise if we tax simple raw materials. But so far as that goes, the case is the same. If, for instance, we were to tax raw cotton, and Holland and France and other countries of Europe were to admit it free, those countries would be able to undersell our cotton goods in foreign markets. This risk the protectionist wishes to avoid. But if we tax imports of chemicals, colours, dyes, leather, and machinery, thereby increasing the cost of any one of those elements in the cotton manufacture, while rival countries let them in free, it is obvious that we are creating just the same kind of risk. Only in

this case the protectionists ignore the risk, and argue as if it did not exist. They think and argue only about another side of the case—employment for the home industry.

Let us then see whether that consideration has weight as against every other. It will probably be admitted by everybody that *some* kinds of industry would not be worth any nation's while to protect against foreign competition. We in this country, for instance, can grow grapes and bitter oranges under glass, and can so make wine and marmalade —at a vastly greater cost than it takes to make wine in France and grow oranges in Spain. But nobody plans to establish such industries here —though recently a labour organisation proposed an import duty on Spanish salt on the ground that the sun in Spain dries salt much more quickly than here. It is only over 'practical' industries that there is much debate. And there is undoubtedly a very practical issue.

A member of Parliament recently told how, years before the war, a protectionist relative of his, in the shipbuilding trade, was able to get a profitable contract for building six ships because he bought the required steel from Belgium at a lower rate than was then demanded by British steel-makers. Had he not been able to get the cheaper steel he could not have got the contract for the ships. Upon this the protectionist objects that employment was thus taken away from British steel-workers. But this is plainly a fallacy. In the

terms of the case, the steel for the six ships would *not* have been bought from British works even if there had been a duty sufficient to keep out the Belgian steel. The contract would in that case have been secured by a foreign builder who *could* get cheap steel ; and the six ships would not have been built in Britain at all. So the British shipbuilder, by getting the cheap Belgian steel, was able to secure in his own yards far more employment than would be represented by the making of the steel at home, even if it could have been produced at home cheaply enough.

Take, again, a recent case in which a company proposed to develop new undertakings for which they wanted fifty motor lorries. The duties imposed on such articles during the war in order to save tonnage space had been allowed to remain in force ; and the addition thus caused to the price of the American vehicles made the transaction impossible. Here, again, employment is *not* secured for the home motor industry, since the cars are not ordered at all ; while the employment which *might* have been given in the new undertaking by means of cheaper lorries is prevented. It thus appears again and again that protective duties can greatly *lessen* employment in the lump. What is hard to discover is, how it can ever *increase* employment in the lump, though it is easy to see how a particular protective duty may, for a time at least, increase employment in a particular industry.

The evidence offered on this side is constantly

found to be fallacious, and sometimes it is extremely so. It was recently stated in Parliament, for instance, that a certain capitalist, if he were guaranteed a protective duty on imports of the kind, would lay out £100,000 on plant for making doors and window-frames, and so would employ a quantity of native labour. It was asserted, further, that he would produce the doors and window-frames as cheaply as they could be imported. But if that were so there was obviously no need for an import duty; and its imposition would simply mean an extra profit to him. Some protectionists, more careful about their arguments, fall back upon a variant of the familiar plea, above noted, about the advantage of 'a start.' They say that if only the manufacturer is guaranteed a protective duty of 10 per cent. to start with, he will lay down new plant and so be able after a time to sell more cheaply than ever. But there is no record of manufacturers so protected ever admitting that they can do without the help; and common sense tells us that when they are guaranteed an increased profit of 10 per cent is precisely the time when they will *not* lay out fresh capital in new plant. Our unprotected manufacturers, on the other hand, are in the habit of laying down fresh plant freely, and keeping their trade accordingly.

As regards imported doors and window-frames, we have to face the usual dilemma about employment. Such things are imported only when they are cheaper (quality for quality) than similar goods

made at home. It may happen, then, that a particular enterprise of house-building will be made possible by a tender of doors and frames at lower rates than those charged by the home producer. At the home rates, it may be, the enterprise will not be undertaken. (This, of course, applies to building operations on ordinary business lines, as before the war, not to schemes set up by local authorities under Government guarantees. But even under such guarantees, if employment is provided on a large scale by the scheme, it would be wasteful to pay high prices for home-made doors and frames if equally good ones can be imported cheap. But the whole trade question involved at this point is small.)

There is another important matter that ought to be always kept in view, but is constantly overlooked by protectionists. Competitive imports have the effect of keeping a home industry vigilant, efficient, and progressive; while protected industries, on the other hand, very often become inefficient and unprogressive. A number of years ago, the British boot trade found itself suffering severely from the competition of imported machine-made American boots. These boots were not only made by more ingenious and economical machinery than ours: the boots were neater and made in a far greater variety of sizes, so that the customer found it much easier to get a comfortable fit than he did with a British boot. The distressed British producer naturally talked about protection; but

he could not get it ; and at that time there was not even an agitation on foot for a general tariff. He was thus compelled to help himself.

He did so by sending his sons or agents to America to study the American machines, and to make arrangements for their importation. What happened was that the American machine-makers, being free to charge a high price at home, gave good terms in the usual way to 'the foreigner'; and the British manufacturers in general hired American machines[1] at rates which enabled them to produce more cheaply than the American boot-makers. In a short time the invasion of American boots was practically at an end ; the British makers learned the lesson of offering a variety of sizes ; and soon there was a larger export of British boots than there had ever been before.

Suppose that, instead of what actually happened, there had been a successful political agitation for protection in the boot trade, securing a tariff that kept out American boots : the British industry would have remained backward and inefficient ; the British boot would have remained clumsy, and would have been dearer than the American ; and there could have been no such British export trade as actually grew up. Here, once more, the free importation of foreign manufactures had brought about a *greater* amount of employment than there would have been under protection ; and

[1] Trouble has arisen latterly about the conditions of such hiring ; but such difficulties are usually adjusted in the end.

protection would actually have *reduced* the total amount of employment in the country.

The reader who has followed thus far with an open mind will have realised, then, that a number of the pleas made for protective tariffs are illusory ; and that the actual facts of trade turn out to be quite different from what the advocates of tariffs suppose them to be. It turns out that measures intended to increase trade and employment have an exactly contrary effect, while the plan of leaving industry to stand on its own feet results in recovery after a time of depression. It is unfortunately true that in all the depressions labour suffers ; but the lesson to be learned there is that there should be a proper system of unemployment insurance, not that we should set up a protective tariff. When we come to the statistics we shall find that there has repeatedly been enormous unemployment in countries which have high tariffs.

What is more, the very reasoners who tell us that tariffs enable manufacturers to pay high wages, and that under free trade this cannot be done, contradict their own statement. American tariffs used to be raised on the plea that European labour was poorly paid, and that on that ground its products must be kept out of the American market. But in Britain we frequently find tariffists arguing that *we* must set up tariffs against foreign manufactures because *they* are made by 'cheap labour.' Now, there is only one other

industrial country that works under free trade, namely, Holland, though some countries, like Belgium, keep their tariffs low. Unless, then, the goods complained of all come from Holland, they are made by labour *protected by tariffs;* and nobody pretends that Holland is our chief rival in manufactures. The rival countries commonly pointed to are the United States, Japan, and (before the war) Germany. But these are (or were) all protectionist countries. Then labour in protected countries is 'cheap,' according to the very men who tell us that protection leads to high wages!

As a matter of fact, British labour all round has long been the most highly paid in industrial Europe, with the shortest hours, and, on the whole, the cheapest food. Where, as in the United States, wages in general have been higher, the cost of living has also risen much higher, the hours of work have been longer, and the 'pace' of work has been confessedly more severe. Sixteen years ago, a good comparative test of labour conditions all over the world was applied by Carroll D. Wright, the Director of the United States Labour Department. Mr. Wright then made the calculation that the food of the American workers in general cost them only 33 per cent of their wages, as against 45 per cent in the case of British and 55 in the case of other European workers. But when he collated the *whole* costs of living in the different countries, and thus ascertained how much labour

it costs an average working man to support a family of average size (taking the same figure for all) at the prevailing rates for food, clothing, furniture, taxes, rent, etc., he reached the result that in Britain it took 205 days' work per annum ; in the United States, 225 days ; in France, 231 ; in Germany, 240 ; in Russia, 286 ; and in Italy, 290. That tabulation, impartially made by an American expert, is the fairest test that has ever been applied to the problem. Ten years later, the costs of living had risen considerably more in the United States than in Britain ; and we shall see later explicit testimonies as to the loss in the United States, through tariffism, of a great part of the advantage conferred by nature on their population.

If, then, labour is found thus to get the best life conditions under a system of free trade, there is already a high presumption that free trade is specially favourable to industrial production. What other general test can be applied ? Perhaps that of national wealth or national credit, as measured by a nation's power of bearing financial strain. But here again the evidence is strongly in favour of the free trade policy ; for the World War has proved Great Britain to be of all European nations the strongest in point of financial endurance. With about two-thirds of the population of Germany, she imposed on herself an amount of taxation immensely greater than that which the German Government dared to venture on, and

financed not only herself but all her European allies and her own Dominions, all of which have lived under systems of protective tariffs. No one has yet explained how such financial strength could be attained under a fiscal system which has for many years been 'bad for trade.'

The fair inference is that on the contrary the free trade policy has been good for trade; and this conclusion will be found to be very fully justified when we trace the industrial and social history of Britain during the nineteenth century in comparison with that of the other leading industrial countries. Such a comparison will clear up several puzzles which from a protectionist point of view must remain puzzles for ever.

CHAPTER V

THE HISTORIC TEST

§ 1. *British Misery under Protection.*

IN Britain, the eighteenth century ended and the nineteenth began under a system of what would to-day be called high protection. Corn, in particular, was under a heavy tariff, so that the sufferings which were naturally set up by the long wars with France were frequently increased by artificial scarcity of food, and the famine prices resulting. It will be fair, however, to pass over the whole war period as one in which special distress may be ascribed to the war conditions. The tracing of the effects of fiscal policy may properly begin at 1816.

At that time it was the declared principle of the landed interest, which predominated in Parliament, that the high prices for corn which had ruled during the war must be maintained. For such a principle they had the excuse that commerce and manufactures were both encouraged and protected by bounties and by import duties; and that agriculturists who were thus forced to pay high prices for the manufactures they had to buy,

were entitled to protective duties on agricultural produce. The country thus had 'protection' all round; and the mass of the people lived in deep distress, which subsisted chronically for a whole generation. In 1816 something like Bolshevism was on foot in many English counties, sheer hunger driving multitudes of labourers to various kinds of rioting. The price of wheat was 103s. 7d. a quarter; and in 1817 it rose to 112s. 8d. Even under the Corn Laws, foreign wheat could then come in when the price had risen to 80s. (though one parliamentary committee had wanted to raise the limit to 105s.); but the long spell of previous prohibition had checked foreign production in the countries which might have grown wheat for the British market, and now it was not forthcoming.

Even when it was, the need suddenly to make financial arrangements for a large import caused dislocation and friction that meant new forms of commercial loss. As Lord John Russell put the case on 14th February, 1842:—

"The sudden rise [of price] after a bad harvest, when perhaps there has been prohibition for two or three years, causes the necessity of a sudden supply from abroad: there is no regular trade, and bullion is sent to meet the demand; the Bank of England contracts its issues; and there is a derangement of the currency."

In the five or ten years after Waterloo, the distress throughout the country must have been as crushing as it ever was in the worst years of the

long war period. The Government had chosen in 1815 to pass a new Corn Law prohibiting the entrance of foreign corn when wheat was selling at less than 80s. a quarter. With bread thus kept at prohibitive prices, all demand for industrial products fell to the lowest; and manufacturers paid a wretched wage to operatives, many of them children, who worked from half-past five in the morning till half-past nine at night. These facts were specified in 1818. In Lancashire, in 1820, wages varied between 6s. and 12s. a week, with a working day of fifteen hours; and in Coventry inferior workmen earned only from 1s. 6d. to 2s. 9d. a week. In such a state of things, the poor rates were enormous: at Coventry they were 19s. in the £ on house rents in town, and 45s. per acre on the land adjoining. The industrial population lived for the most part in a state of continuous hunger.

But the agricultural class were hardly better off. The distress had caused an immense extension of poor relief; and the heavily burdened farmers sought to hire the cheaper labour of men supported by the rates, reducing their regular labourers in this way to the same position of pauperism. But the most remarkable thing of all was that the farmers who were protected by the Corn Laws were in a state of chronic distress until those laws were abolished. Parliamentary inquiries into agricultural distress were held in 1816, 1820, 1822, 1833, 1836; and bankruptcy was more common in that class than in any other. The explanation is

simple. In years of scarcity, prices and profits ran very high; and farmers eagerly called for fresh land, for which they of course paid higher rents. In years of abundance, this extra cultivation, even of poor land, yielded such an excess of supply that prices fell heavily and the farmers could not pay the raised rents. 'Good' years ruined the farmer, as bad years ruined the poor. In the long run, only the landlord gained; and even he in turn had to pay the penalties of the general misery, in rates, taxes, and loss of rent.

Decade after decade, there was no steady improvement. 'Fearful suffering' and 'unparalleled distress' were reported in Lancashire; misery drove the starving workers to wreck the power looms and create wild riots, and many were killed and wounded in conflict with the soldiery. In the eastern counties, in Scotland, and in Ireland, the record of unemployment and misery was the same. In Lanarkshire in 1828, from 30 to 60 per cent of the weavers, district by district, were unemployed. In Barnsley in 1829 the wages of the working classes averaged only 1s. 8d. a week; and in Huddersfield they were even lower; while in Hampshire and Cheshire peasants could be frequently seen harnessed to waggons, their labour being cheaper than that of horses. In 1830, mill hands in Lancashire and Yorkshire were working more than twelve hours a day, and often earning only 3d. or 4d. And bread was at 10d. the 4lb. loaf.

Humane landlords reduced rents, and clergymen tithes; still agricultural wages fell, and the labourers, becoming frenzied, broke the thrashing machines, and set fire to stacks of corn and hay. When good harvests came in the years from 1832 to 1835, the relief given to the mass of the people by cheaper food meant the distress of the farmers whom the low prices made unable to pay their high rents; and in 1838 it was told in Parliament that the hosiery export trade had been largely lost through German competition; that German hosiery was coming into Nottingham, where there was much unemployment, in spite of a 20 per cent duty; and that whole branches of the hardware export trade had been lost to Sheffield by the same competition. In 1839, it was recorded that Switzerland, then under a low tariff, was successfully competing with our cotton export trade in the Italian, Levant, and North American markets. All this took place under 'high protection all round.'

In the generation after the abolition of the Corn Laws, 'the hungry forties' became a household word, so great had been the poverty of that decade down to 1846. Macaulay, in a speech of 1845, has described the misery of 1841 as such that a sympathetic man could hardly bear to pass through the manufacturing towns, where the masses of starving and unemployed workers had to sell everything they possessed to keep themselves alive, till their hovels were "as bare as the wigwam of a Dogribbed

Indian." But in 1842 the misery appears to have been little lessened. A series of articles in the *Stockport Advertiser* of that year exhibits it in terrible detail. One, on March 18th, speaks of "the dark deluge of distress which still continues to inundate and oppress every social and commercial energy. . . . Not one single link in that chain which binds society together is exempted from this universal depression." One of the details supplied in the following week was that

"Where each family once occupied one house, *two and three families are now living together to avoid the pressure of the rates*, until the number of tenantless dwellings is increasing the alarm so generally felt. We are informed that double houses, which two or three years ago let for 2s. 6d. and 3s. per week, are offered at 7d. clear of all rates in order to satisfy the chief rent. . . . The extent of empty property in Stockport alone and the amount of distress the town is suffering cannot be better illustrated than by the following fact: In 1840 a rate of 1s. 6d. in the £ realised £5,000, whilst in 1842 a poor's rate of 2s. will only produce £3,000, a depreciation in two years of 55 per cent."

The gist of a further record of the same period is that

"Towards the end of March the relief fund was exhausted. It had been in operation thirteen weeks, and over £4,000 had been distributed. In an appeal issued by the Mayor and Messrs. S. R. Carrington and J. D. Fernley, hon. secs., it was stated that *of* 15,823 *individuals visited*, 1,204 *only were found to be fully employed*, 2,866 *partially employed, and* 4,148 *able to*

work were wholly without employment. What were the circumstances of the remaining 7,605 it is impossible to conjecture."

On August 4th of the same year the same journal announced that

"*Fifteen cotton manufactories are still closed* (showing a cessation of one-third of the whole available steam power in the borough), and *upwards of* 150 *shops and nearly* 3,000 *dwellings are unoccupied*, being just one-fourth of the whole number of tenements returned by the last census. Besides all these *there are nearly* 5,000 *operatives out of employment*, and the Overseers are about to issue summons against every ratepayer in arrear of the rate which was granted on the 30th of June last, in order to compel payment, so urgent are the claims of the Union upon them."

The Mayor, summing up that since 1836 there had been 37 bankruptcies of master spinners in the town, great unemployment, causing 3,000 houses to be shut up, and such distress that 73,314 persons, whose average weekly income was 9¼d., had been in receipt of relief, declared that "he wished Sir Robert Peel to know that he as Mayor would not be responsible for the consequences which might follow." They were such as to justify his warning. Soon a mob of about 5,000, including many women, went about the towns in the district, compelling the mills and collieries to stop work, in protest against the miserable rate of wages paid. All the mills in Manchester and Salford were thus forcibly closed. To the eye of

Peel and many others, society seemed in danger of dissolution.

It was such extremity of distress, remembered in the better days which followed, that gave rise to the phrase of 'the hungry forties'; but that might really have applied to the whole forty-odd years. Cobbett in his *Rural Rides*, and other records of actual observation, show that the 'teens, the twenties, and the thirties had been on the average about as miserable as the forties; and it was only because in the forties the majority of the manufacturers, schooled by Cobden, had come to recognise that protection was to them a bane rather than a blessing, that Sir Robert Peel was able to carry, against the still powerful resistance of the landed interest, in the face of imminent famine, the repeal of the Corn Laws.

§ 2. *The Change under Free Trade.*

As we have seen, the common notion that Britain obtained 'supremacy' in manufactures before 1846 by reason of her protective system, and that this was what enabled her to adopt free trade with safety, is a delusion. A great superiority in textile manufactures had indeed been won by the early resort to machinery in the latter part of the eighteenth century; and while the Continent was periodically ravaged by war in the Napoleonic period English manufactures had a further advantage as compared with those of

other European countries. But it was generally recognised that the distress after 1815 was due to the fall which then began in the foreign demand for British manufactures; and, as we have seen, Germany and Switzerland were already underselling us on some lines, even in our own markets, in the thirties. What moved the British manufacturers to give up protection for themselves and to demand its abolition as to corn was the discovery, forced upon them by the teaching of Cobden, that they could not prosper without a widened market abroad, and that they could not hope to export much while our fiscal system kept down our imports to the lowest possible figure.

It was common in that period to charge the free-traders with wanting cheap food for the people merely in order to be able to pay lower wages; and many of the workers, especially the Chartists, seem to have adhered long to that view. Peel and Gladstone both held the same opinion until Cobden convinced them that the highest wages were paid not when bread was dearest but when it was cheapest. This, again, is a matter of simple economic cause and effect; and the wonder is that such powerful minds as Peel and Gladstone took so long to follow it. When bread was very dear, not only the great mass of the workers, but many of the shopkeepers and the people living on small fixed incomes, had much less money to spend on anything beyond food; and so there was less employment for every manufacturing industry.

Wages in consequence fell all round just when there was most need that they should be raised. When bread was cheap, on the contrary, people in general had more to spend on manufactures, and the increased demand for goods led to a demand for labour and a consequent rise in wages.

When, after the repeal of the Corn Laws began to have its effect, the price of food fell greatly on the average, wages did not fall, because employment did not fall. It has recently been asserted in the House of Commons[1] that the unemployment described by Carlyle in *Past and Present* occurred "in the middle of the industrial system of the fifties"; but this is a fiction. Carlyle's *Past and Present* was published in 1843; and the unemployment he described was probably what he witnessed in 1841 or 1842. That was the product of all-round protection, Peel having only in 1842 begun to reduce import duties on manufactures. It is true that between 1823 and 1826 Huskisson, then President of the Board of Trade, effected reductions in the tariff upon many articles; but these still left a protective system standing. The duties on cotton goods, which had ranged from 50 to 75 per cent, were reduced to 10 per cent, the cotton trade having least fear of competition; but silk, which had before been prohibited, remained charged with duties varying from 25 to 30 per cent; linen, on which the duties had run from 50 to 180 per cent, remained under a 25 per

[1] Official Report for 24 June, 1919, col. 114.

cent tax: those on woollens were reduced from 50 to 15; those on earthenware from 75 to 15; those on glass bottles from 8s. to 4s. per dozen, and those on leather from 75 to 30. Iron in bar had been taxed £6 10s. per ton: this was reduced to 30s. Britain was thus under very high protection from 1815 till about 1825; and under comparatively high protection from 1825 till 1843.

As leader of the party which mainly represented the landed interest, Peel was naturally loth to repeal the Corn Laws; but in 1842, having established a temporary income tax, he was able to set about a systematic removal or reduction of import duties on some 750 articles; and in 1845, getting a renewal of the income-tax for three years, he freed 450 more articles, many of them on raw materials such as hemp, flax, hides, cotton, and silk. The landed interest, having voted the abolition of so many duties on manufactures, and some on raw materials of home production, had no longer a strong case for maintaining the Corn Laws; but it is probable that only a leader who had long held the respect of many landlords could have carried the repeal in 1846; and even he only because the prospects of famine from a ruined harvest and consequent famine were menacing. Had not protection been first withdrawn from most manufactures, it could not have been withdrawn from agriculture.

The last step, however, was the most vital. What was needed was an increase in the total

exchanges between the nations; and if Britain was to sell more produce she must take more in return. This return *could not* be all in raw material for fresh manufacture, if the nation was to have a fair profit on its labour. The exported goods were naturally worth much more than the imported raw material they embodied: if fresh raw material were imported to the full value of one year's export, the amount to be worked up in fresh manufactures would be far in excess of the demand. The balance had to be struck by the further importation of something else; and that something must be either foods or goods. In the Britain of that age, with a rapidly increasing and ill-fed town population, the visibly right import was corn.

This at once made a new market for English goods in both Europe and America; and countries which had been checking their wheat production for lack of a market and turning to manufactures instead were at once encouraged to grow more wheat, which, sold in Britain, could be paid for only by British produce. It was thus and then that Britain obtained her most marked 'supremacy' in manufactures, recovering lines of export trade which she had lost, and for a long time heading other nations in manufactures as she had done in the age of the introduction of machinery. It was in the first generation of free trade, too, that British agriculture reached its highest prosperity. All the predictions of its ruin were turned to naught when rents, instead of falling, were found

to remain steady, and farmers, kept on a safe average by the free import which prevented great rises of price in scarce years, ceased to petition the legislature for help as they had so constantly done under protection.

It was not till thirty years had passed that English agriculture was seriously hit by a new non-economic competition coming from the United States. There the legislature saw fit to offer farming land in the west in great quantities to all comers, rent free, on the simple condition that they should cultivate it. With the wheat produced under those conditions on virgin soil, no European producers could compete; and English agriculture entered on a period of depression, with falling rents; while France and Germany protected theirs by import duties. We shall discuss separately the question of what ought to be our fiscal policy in regard to agriculture; and what might have been the best course to take in the seventies, when the cheap American wheat began to flow in. But the historic fact here to be noted is that for a whole generation British agriculture was at its most prosperous pitch under free trade; that in this period every kind of production expanded greatly; and that even the depression in agriculture begun by cheap American corn in the seventies has never depressed the life of the people as did the protective system in the first half of the nineteenth century.

As regards other elements in the cost of living

under the protectionist system it may be found interesting to reproduce an actual Stockport grocer's bill of 1841 which happens to have been preserved in the grocer's day-book and was published and vouched for on October 22, 1909, by the *Cheshire County News*, from which we copy it, with their explanations :—

"Below is a copy of an entry in the rough day book of Mr. George Brookes, Grocer and Tallow Chandler, of 31, Market Place, Stockport.

Thursday, Oct. 7, 1841.

HENRY MARSLAND, ESQ.

			£	s.	d.
20lb. Lump Sugar	at 1/–	=	1	0	0
36lb. Raw	,, 7½d.	=	1	2	6
20lb. Common	,, 7d.	=	0	11	8
1lb. Starch	,, 6d.	=	0	0	6
1lb. Best Blacking	,, 1/6	=	0	1	6
¾lb. Mustard	,, 1/8	=	0	1	3
1 Quire Cap Paper	,, 6d.	=	0	0	6
¼lb. Powder Blue	,, 2/8	=	0	0	8
2lb. Rice	,, 5d.	=	0	0	10
1 Brick	,, 3d.	=	0	0	3
1 Pint Turpentine	,, 10d.	=	0	0	10
¼lb. Carraway Seeds	,, 1/–	=	0	0	8
2lb. Soft Soap	,, 5d.	=	0	0	10
			£3	1	7

[*Henry Marsland, Esq., resided at Woodbank, Stockport, and was Member of Parliament for the Borough in* 1841.]"

To bring out with precision the difference in costs as between 1842 and 1909, a local free-trader ordered from a grocer all the articles specified in the old bill, and the result was the following bill, as against the other :—

" Bought of B. HANCOCK,

FAMILY GROCER AND PROVISION MERCHANT.

Mr. J. H. Barnes, Stockport.

			s.	d.
20lb. Lump Sugar	at 2½d.	=	4	2
36lb. Raw Sugar	„ 2½d.	=	7	6
20lb. Raw Sugar (common)	„ 2¼d.	=	3	9
1lb. Starch			0	3
1 dozen Packets Blacking			0	3
¾lb. Mustard	at 1/4	=	1	0
1 Quire Cap Paper			0	1
¼lb. Powder Blue			0	2½
2lb. Rice	at 3d.	=	0	6
1 Bath Brick			0	1½
1 Pint Turpentine			0	6
¼lb Carraway Seeds			0	1½
2lb. Tin Soft Soap			0	6
			18	11½

Paid same date, Benj. Hancock."

It would be difficult to name many articles of ordinary use in which there had not been similar

reductions of price. Not the least important case in point is that of books. Publishers about 1840 counted themselves enterprising when they published at 5s. a cheap series such as was produced in the present century, before the war, at one shilling, despite a much higher wage payment to the compositor.

§ 3. *The Statistics of Expansion.*

The statistics of industrial expansion and wealth increase in Britain since 1850 give such an overwhelming proof of relative prosperity under free trade that it is unnecessary to offer them in detail. A few statements in round numbers will convey the gist of the evidence. Between 1854 and 1913, the increase in foreign trade was fivefold, while population had not doubled, the figures for 1851 having been 27¾ millions. Between 1857 and 1908 the increase in incomes returned for income tax was more than threefold—a rise from £313,000,000 to £947,000,000. At the same time, the increase in the total of deposits in the Post Office Savings Banks between 1864 and 1908 was from £5,000,000 to £161,000,000. On the other hand, pauperism in England and Wales, which in 1850 had been 56·5 per thousand of population, had in 1908 fallen to 22·1 per thousand. Between 1854 and 1914, again, our shipping engaged in foreign trade had increased from 3,000,000 tons, mostly of sail, to 12,000,000 tons, mostly of steam.

To be sure, these figures do not in themselves prove that free trade was the cause of the prosperity. Other countries, under tariffs, also expanded their trade, and it is obvious that the developments of railways and steam shipping promote commerce independently of fiscal systems. But one or two crucial tests will show that free trade demonstrably does promote expansion where tariff systems check it; and there is no contrary evidence for the expansion of trade under tariffs with contraction under freedom.

When we note that in 1826 the substitution of a duty of from 25 to 30 per cent on silk goods for an absolute prohibition was viewed with terror by the English silk trade; yet that within a year of the change the number of throwing mills had risen from 175 to 266, and that of spindles from 780,000 to 1,180,000, it is hardly possible to doubt that the fiscal change was the main factor. When, seven years after the change, the silk weavers of Macclesfield drew the carriage of the responsible minister (Huskisson) through their town in triumph, they evidently took that view; and when it was found that in the ten years before 1824 the average quantity of raw and thrown silk used in the trade had been under two million lb., and that in the ten years following it was over four millions, there could hardly be any dispute as to the inference. The broad explanation of the change is that when prohibition was withdrawn the manufacturers felt compelled to substitute

new and efficient machinery for the old machines they had been using: and only where this was not done (as in Coventry) was there distress.

If, again, we compare the total figures of British exports in the first half of the century with those of the free-trade half, we find, to begin with, a much greater rate of expansion in the latter period. Values, indeed, are not sure evidence of the amount of trade done: and when we find the annual export average put at £40,750,000 in 1801–10: at £41,500,000 in the decade 1811–20; and at only £36,500,000 in 1821–30, we may be sure that the *amounts* in the peace period were really much larger than the mere values would suggest. When, again, the figures rise in the decade 1831–40 to £45,250,000, we infer a considerably larger trade than was done at high prices in the war period. But when we find that from 1842, when the year's export figures stood at £47,000,000, they rose to £63,000,000 in 1849, it is a fair inference that such an exceptional progression was due to the system of fiscal reductions begun by Peel in the former year.

If, yet again, we take the total of British exports and imports together, we find that at 1834 it was about £100,000,000: at 1842, £125,000,000: and at 1846, £150,000,000. But thereafter it rises continuously till 1860, when it is close upon £375,000,000. Such a rise as this is wholly unprecedented in the protectionist period; and when, after ups and downs largely due to European

wars and the American Civil War, we find that in 1892 the figure has reached £750,000,000, it is at least clear that free trade *permits of* an enormously greater commerce than ever took place under tariffs. For the *amount* of the trade was latterly far greater than the values indicate, the price of many goods, such as cotton, having greatly fallen.

§ 4. *Expansion in Protectionist Countries.*

It is urged, however, that the trade expansion of tariffed countries, in particular the United States and Germany, has also been very great, and that therefore free trade ought not to be in any degree credited with ours. It is necessary here to note, in the first place, that as regards the United States the comparison is between a vast area and a small one, a continent and a small group of islands; that *within* the vast area of the United States there is complete freedom of trade; and that in point of sheer natural resources the United States *ought* to be immensely more productive than the United Kingdom. The States have colossal advantages in respect of the production of cotton, tobacco, and petroleum with which we have absolutely nothing to compare; their coal and iron beds are many times greater than ours, and much more easily workable; and their corn-growing and fruit-growing power is equally superior. Obviously a country so nearly self-sufficing does not *depend* on foreign trade as we do.

Yet her progress in population and wealth is not nearly as great as ours in proportion to her possibilities ; and the facts call for investigation.

It is obvious that in such a country wages would naturally tend to be high as soon as the first struggle with wild nature and the savage was over, and population could freely expand. In all new countries the process is the same : men desire to till or work on their own account, and hired labour is relatively scarce and dear. Under these circumstances manufactures on a large scale cannot easily arise, and imports are the natural source of supply. In the United States, however, it was at an early stage decided to *create* a manufacturing population, and to that end heavy duties were laid upon imports. As we have already noted, these were after a time lightened, and a leaning towards free trade seemed to be growing, when the Civil War came to throw the development back. The result of the continued tariff system is broadly this, that wages in the United States have been high in trades which *cannot* be protected (as, engine-driving and brick-laying) and low in those which *are* protected, as the textile trades. It was commonly admitted in the States quite recently that in the protected woollen trade machinery was backward and wages low, as a result of the long protection given by the tariff. And in the winter of 1909–10 the *Westminster Gazette* printed this letter from an English workman employed at Brooklyn :—

"Thousands of mill hands get 1½–1¾ dollars a day. Now this is only equal to a great number of our wages at home; but look at the difference in value! Bread here is 5 cents for 1lb. loaf. Butter has risen to 40 cents a pound; beef 40 cents a pound, eggs 40 cents a dozen this winter. Clothes are outrageous. Everything, in fact, is abnormally dear. I am also sorry to say there is plenty of unemployment here, and personally I think it better to be unemployed where there is cheap food than unemployed where the food is dear. . . . I only wish I could plant some of our ardent reformers here for a week only: I think they would have enough of it by then."

Here it begins to appear how an artificial process of heightening prices by tariffs can defeat itself. It is evident that the American workers *in protected trades* had no proportionate share in the natural wealth of the country; and one of the presumable reasons is that the States had to export proportionately more in quantity than they received, by the amount represented by their tariff. When, for instance, the States sent to Britain £100 worth of produce, and put a 30 per cent tariff on what they imported, the American creditor was paid, roughly speaking, by £70 worth of British goods, which fetched £97 in the American market; the freights paid to British shipping making up the difference.

In point of fact, as already noted, the States did not take British goods to anything like the full extent of their export to us; much of that export being really American payments of interest on

British investments, and of cost of freight-carrying both ways by British shipping, and insurance by British underwriters. But when the States took oriental produce from China and India they were squaring their accounts with Britain. Such balancings are done by bills of exchange. When, for instance, a British exporter sent goods to India, he would draw a bill on the Indian debtor. That bill could be sold to a British importer of American goods, who could use it to pay his debt in America; and the American receiver (or his banker) could sell it to an American importer of goods from India, who would use it to pay *his* debt there. But in the end it works out that the country which puts a high tariff on imported goods gets so much the less of foreign goods to pay for its own exports to a free trade country.

§ 5. *British and American Shipping.*

For the same kind of reason, shipping is an important factor in securing real wealth; and it is really beyond reasonable doubt that shipping thrives under free trade very much more than under protection. In the period from 1801 to 1841, British tonnage appears to have increased only from 1,970,000 to 2,935,000. In the decade 1841–51, under the effect of Peel's fiscal reforms, it increased to 3,662,844—a rise of 727,000 tons in ten years as against a rise of only 965,000 in forty. But after 1851, when the fruits of the repeal of the

Corn Laws came to be fully reaped, the expansion was much more rapid still. In 1861 the figures were 4,806,000 ; in 1881, 6,692,000 ; in 1901 they had risen to 9,608,000 ; and in 1914 to 12,119,000.[1] And the increase in carrying power here is far greater than is indicated by the mere tonnage figures, for modern tonnage is mostly steam, of which one ton is reckoned to do the work of three tons of modern sail ; while the modern sailing ship itself is far more efficient than that of the first half of the nineteenth century.

Thus the *carrying* power of our foreign-going shipping in 1914 was probably about twenty times what it had been in 1841, and this means, in the upshot, that we imported at least ten times the amount of real wealth per annum, for a population that had not doubled. Of this wealth a large amount was earned by the shipping itself ; for Britain has latterly had more than half the effective tonnage of the globe, and thus did most of the carrying both ways between herself and other countries. This meant that goods in payment of freight-carrying, and yet further in payment of insurance premiums due to the British underwriters, came into this country in addition to the goods representing profits and interest on British investments. Thus Britain, with incomparably smaller natural resources than the United States,

[1] These are figures of *net* tonnage. The *gross* tonnage in 1914 was over 20,000,000 ; and by this measure the increase in shipping construction is considerably greater than by the other.

earned for her aggregate population, under her free trade system, a share of real wealth out of all proportion to her power of direct self-supply.

But the most remarkable thing in the whole record is the comparative history of British and American shipping, which proves conclusively how free trade can help and tariffs handicap an industry. In the first half of the nineteenth century American shipping actually increased more rapidly than British. In 1840 it stood at 900,000 tons; in 1850 at 1,585,000; and in 1860 at 2,546,000; while that of Britain in the same period increased only from 2,768,000 in 1840 to 3,565,000 in 1850 and 4,658,000 in 1860. The American percentage increase was thus considerably the higher; and even of the British shipping of that period, the best tonnage was built for us in the United States. The once famous 'China clippers' which then annually raced home with the first of the Chinese tea crop were mostly American built.

The reason for this was that the States had great natural advantages for shipbuilding as regards alike timber, hemp, and tar; whereas British shipbuilding had been made both costly and inferior in the protectionist period by duties on Baltic timber, hemp, tar, etc., and by preferences on Canadian timber, which was quite unsuited to the purpose. At 1860 it looked as if before the end of the century the States and not Britain would be the great sea-trading country.

But after 1860 two things happened : the American Civil War, with its train of import duties, and the advent of the iron ship, to be followed a generation later by the steel ship. With a tariff on iron, the advantage of the American shipbuilder disappeared ; with a monopoly to American coastal shipping, the costs of ship-maintenance in the States rose greatly. The outcome was that in 1906 the American sea-going tonnage had sunk to less than one million, while the British had risen to over eleven. For the ten years 1895–1904, indeed, the U.S. sea-going tonnage was under 900,000 ; and the subsequent slight rise was due to subsidies.

In this matter the causation is clear. It was free trade that expanded British ship-building and British sea-carriage alike. The States could not make and sell iron and steel ships in competition with the free-trade country. And a closely similar development has taken place in France, where no amount of subsidising has availed to set up any progress approaching to that seen in the British mercantile marine. The subsidies have secured an actual increase in sail-tonnage, which is obviously uneconomical ; and the British increase in steam tonnage in the period 1895–1902 was over 2,500,000, as against a French increase, *under bounties*, of only 50,000 tons.

It is to be observed further, as regards all comparisons between British and foreign tonnage, that the different bases of computation are apt to set up misconceptions ; and that there are many

misrepresentations on the subject. The following facts are to be kept in view :—

1. The *total* of American tonnage includes the great quantity of craft plying on the rivers and lakes and in the coastal trade of the States, all of which is an American monopoly. The true basis of comparison between British and American shipping is between the sea-going tonnages.

2. American registered tonnage includes all vessels of *five tons and upwards*: so that the figure of 4,500,000 for the home trade includes thousands of sloops, ferry-boats, dredging machines, tugs, and paddle-steamers. Much of the American tonnage, too, is *sail*. A comparison of bare tonnage between sail and steam is quite misleading.

3. French registered tonnage includes all vessels of *two tons and upwards*, as is also the case with the small and unexpanding tonnage of protectionist Italy, which also consists largely of sail of inferior efficiency. British registered tonnage includes only vessels of 100 tons and upwards.

4. British tonnage in the aggregate remains the most *efficient* in the world (or did so in the years of peace). The constant practice of British shipowners has been to renew their tonnage frequently and sell the old to other countries.

The only remaining protectionist argument against the inference drawn from the conspicuous success of shipping under free trade is that the shipping of Germany latterly expanded rapidly, despite her tariff system. But this turns out to be

an argument in favour of free trade; for not only was the German tariff in general much lower than the American, but the German fiscal law all along allowed free trade in all materials required for shipbuilding and ship-outfitting. The very cutlery used on passenger ships was exempted from duty, and was thus either foreign-made or, if home made, supplied at the world-price—that is, in this case, the British price. The German law thus in effect avowed that shipping needed free-trade conditions in order to compete with free-trade shipping.

It is argued, indeed, on the other hand, that seeing American shipbuilding was also latterly allowed immunity from duties on all material, and yet could not compete with British, it cannot be the free-trade conditions that cause the difference. But once again investigation proves the point. It was only for the ships built for foreign trade that materials were allowed in the States to escape duty: the shipping for the monopoly trade in American waters naturally got no such privilege. But that shipping constituted the bulk of the American output: and the shipyards in general were thus on a protectionist basis. A yard could not build a ship cheap on one side and dear on another. Only in separate yards could any advantage be got from the remission of duties; and as such yards would on the whole turnover get smaller profits, the plan was on the whole a failure. German shipping being all on the same footing, the plan in the German case succeeded.

§ 6. *German Trade Expansion.*

But it was naturally in respect of German trade in general that the British tariffists before the war claimed superior expansive power for tariffed trade over free trade. It is necessary, therefore, to investigate that topic before we make a historical summing up.

The outstanding facts are that in the generation before the war German commerce and industry made greater progress than those of any other continental State; and that the *percentage* expansion under both heads was greater than the British. This percentage expansion was often pointed to as a proof that a tariff policy was better for commerce than one of free trade. But there is an obvious statistical fallacy involved here. A new business undertaking may increase its turnover at a higher percentage rate than that of an older one, and yet make a much less *actual* expansion than that of the older concern. For instance, a business with a turnover of £1,000,000 may expand only at the rate of £100,000 a year—a 10 per cent increase, or thereabouts; while a new concern with a turnover of £200,000 may expand at the rate of 20 per cent and yet only make an actual increase of £40,000. Only after a long period can the higher percentage increase overtake the actual total of the larger business. As a matter of fact, the largest percentage increase attained by any State in modern

times occurred in the year 1906 in the trade of Greece, whose whole annual commerce is a fraction of the annual increase of that of Britain.

Another fallacy is plainly involved in the percentage argument. If the German increase is a result of a tariff policy, similar increases ought to be made in the commerce of other countries pursuing a tariff policy. But the case of Germany was selected in tariffist propaganda precisely because no other tariffist country in Europe came near her. France, also possessing great natural resources, made much less commercial and industrial progress under her tariff; and no other tariffed country in Europe was worth discussing in this respect. The only other European countries which made *great* commercial progress in proportion to their natural resources were Holland and Britain, both relying on a free trade policy. The only sound inference was that the progress of Germany was due to other causes than that of the tariff; that tariffs evidently failed *in general* to expand trade; and that the similar prosperity of the only two European countries which pursued free trade as a general principle (Denmark having free trade only in agricultural products) pointed on the other hand to some inherent virtue in their fiscal system.

The problem was clearly one of (*a*) natural resources, and (*b*) of general organisation, scientific and other. The great outstanding facts were that Germany had the greatest combination of coal and

iron resources possessed by any European State; her iron resources in particular being far greater than ours: and that her development of those resources had been unequalled in point of energy. It was just about the time of the imposition of the Bismarck tariff that the British invention of the Gilchrist-Thomas process of working hematite iron made available for commercial purposes a great quantity of German ore such as had previously been unworkable, and had actually been used as road metal. And it will be found that German expert opinion generally assigned the industrial expansion of the last generation to the development of the iron industry in particular, and not to any part played by the tariff. To point as tariffists did to the superior production of steel in Germany as a result of the tariff, when Germany had immensely more ore to produce, was a mere mystification. If the tariff was the cause, why did not other tariffed countries show the same results? In point of fact, no tariff was needed to protect German iron in the new development: and the tariff probably hampered that development by raising, as tariffs almost always do, the cost of production.

Next to this great natural advantage of combined resources in coal and iron, what counted in the special development of German industry was the energetic and economical application of science and organisation to productive processes—an application made possible on the one hand by the

high development of scientific and technical education in German schools and universities, and on the other by the comparatively modest standard of comfort at which educated men in Germany had long been accustomed to live. Until recent years, German professors lived on salaries no larger than those paid to many English foremen; and doctors in chemistry, of whom hundreds were employed in some large single concerns, began life on lower salaries than those paid to many English clerks.

Under such conditions the specially rapid development of the great German chemical industries needs no tariff to explain it. No foreign chemical industry could in the mass compete with it, though many separate chemical industries in Britain always held their own against all competition. When to this forwardness in education and organisation, developing exceptional natural resources, there was added an actual application of free-trade principles to the shipbuilding industry, a great expansion of foreign trade and an improvement in the life conditions of the workers were natural results, clearly arising independently of any tariff policy.

§ 7. *Wealth-Earning Power of Free Trade.*

But there remains to be faced the all-important fact that, with all those forces at work, the rapid expansion of German foreign trade left the German

nation, despite its much larger population, inferior to Britain, after nearly forty years of tariff policy, alike in respect of total wealth, volume of trade, and life conditions for the mass of the people. What was the explanation? No advocates of tariffs have offered any, save the general argument that Britain had 'had the start' in manufactures and foreign trade generally. Now if the British policy was fundamentally wrong and the tariff policy fundamentally right, any 'start' ought to have been eliminated after forty years of intelligent tariffist competition with British trade on the part of a much larger population. But save in the staple steel and iron industries in which Germany, as aforesaid, had great natural advantages, and those chemical industries in which (as in the chemistry of the coal-tar products) those natural advantages were united with special scientific enterprise, German trade in 1914 was not beating British trade either in the output of staple industries in general or in *national profit* as revealed by power to bear taxation; and the wages of the German workers remained lower, with longer hours of work and higher food prices, than those of Britain.

Plainly, the explanation is not to be found in a mere 'start' obtained by British industry under free trade. From the tariffist point of view, in fact, a start could never have been obtained under a free trade policy at all unless other nations actually abstained from seeking industrial develop-

ment. But, as we have seen, severe industrial competition was actually going on in the decade before the reductions of tariffs and the abolition of corn duties by Peel. If any 'start' was really obtained, then, it was *under* free trade; and the credit of it must go to that policy. But even if we waive this fact, and assume that the wars waged by Germany, culminating in the war of 1870 with France, gave a *new* start to English industry, the industrial history of the forty years before the World War cannot be explained away by such a 'start.'

The true explanation, it can be clearly shown, lies in the free-trade policy itself. It is generally admitted that the wealth accumulated by Britain during the nineteenth and the present century has been mainly accumulated by foreign trade; and it is demonstrably in the nature of free trade to yield a larger *national profit* (as apart from profit yielded by *natural resources*) than can be yielded by a protective system.

Under the latter system, as tariffists themselves frequently contend, the protected manufacturer secures his profit by charging high prices to his own countrymen. He is then able (as the tariffists themselves tell us) to *sell cheaper abroad*. This in fact he must do if he is to undersell competitors who live under free trade. And as a matter of fact the increasing foreign trade of Germany was being more and more carried on under those conditions. The high tariff on foodstuffs, imposed in the

interest of the large landowners (for it was only the larger landowners who benefited, as the smaller ones mostly consumed their own produce), kept the cost of living constantly high; so that the German workers, whose wages were much below the British level when the tariff policy began, had to go on striking year after year for higher wages, thus always tending to raise the cost of production.

But that was not all. The vast German military system, though very economically managed, meant the annual withdrawal from industry of a great amount of labour power, which restricted the net product as compared with that of Britain; and the large amount of produce latterly obtained from the comparatively inferior German soil was always *less* economically produced than the food supply of Britain under her relatively careless land-system: because British manufactures, being in general at a high level of efficiency, purchased food for Britain in the best and cheapest markets of the world,—that is to say, in the countries with the greatest natural advantage for food production. The bread and meat consumed in Britain were thus obtained at a lower cost in capital and labour than the bread and meat of Germany, the British worker obtaining better food at lower prices than those of the inferior German food. British wages, accordingly, remained not only higher in actual money amount but higher in purchasing power per shilling than the German.

That is, broadly speaking, the social side of the question. There remains the financial side. The free trade policy meant not only that food and clothing, furniture and crockery and cutlery, were kept cheap for the British population: it meant that the large profits of the British export trade and of British shipping were to a large extent annually *invested* in foreign countries; so that before the war Britain was the chief creditor country in Europe. This very fact used to be founded upon by tariffists in the period 1903–13 as an argument against free trade. The interest upon those investments, they rightly enough argued, must either come to this country in produce of some kind or be re-invested abroad; and it tended to come to a considerable extent in the form of manufactures, in which case (they claimed) it took employment away from British workers.

It never occurred to those who used this argument that, upon their principles, it would really be better for us that British traders and shipowners should make as little profit as they could get along with, and that there should be no British investments of capital in foreign countries at all. British exports of coal and manufactures were always sufficient to purchase the bare food and raw materials necessary for British industry; and if all imports beyond these were injurious to us as taking away employment, we should as a nation be better off without them. And a number of

tariffists did actually argue in so many words that the 'export of capital' was an injury to the nation. It developed foreign countries, they said, and it took away capital that was necessary to develop British industry.

We shall see later, in detail, that this was an 'argument in a circle,' used in tariffed countries as well as in ours by people who did not understand economic problems. Here it may suffice to point out that *if* the capital invested abroad had been productively employed at home, the result would have been a larger production for export; and if the export were profitable it would have meant that the extra profit must be either invested abroad or employed at home in a much larger production than ever; and so on every year, in a 'geometrical ratio' of increase. Now, all business men know that export at a profit cannot increase beyond a certain amount in a given time; that great progressive increases of export can never be long maintained; and that contractions are sure to occur from time to time. In those cases the extra profits *could not* be invested in fresh production save at a loss; whereas to invest them abroad would always mean that the nation as a whole reaped a profit in the form of cheap supplies. For the very fact that foreign nations are owing us large annual sums in payment of interest and freights, over and above the return of goods *for* goods, means that, in the natural operation of the exchanges, we get a further advantage.

The creditor country, as we shall see later, always gains in that way on its imports.

§ 8. *The Financing of the War.*

In the light of the finance of the World War, however, all the old reasoning against 'export of capital' has been put to silence. Even tariffists must now realise that it was our immense investments of capital in foreign countries that alone enabled us to bear the immense financial strain. When in the earlier years of the war huge quantities of munitions had to be bought from the United States, the hundreds of millions of American scrip owned in Britain were available, in the hands of the Government, for the balancing of the transactions: the only trouble was that there were not millions enough. When, again, our Government had to finance its allies and its helpful Dominions, it was only by means of British investments abroad that the transactions could be carried through. Our foreign investments, to begin with, had been made through British exports and British shipping earnings. But in war time exports were cut down to a minimum, and our shipping was soon entirely required for our own urgent needs. We could not possibly have set up, *during* the war, the immense credits needed to carry it on. Only the credits already created by many years of profitable foreign trade enabled us to hold on. Our chief financial and industrial trouble now is that, having used up

those credits, we have become a debtor instead of a creditor country, and are faced by the gravest difficulties in resuming our export trade at our present high costs of production.

Germany, as regards the war, exhibits the converse case. Her foreign trade, by reason of her protectionist system, had been carried on at a much lower profit than ours. It would be broadly accurate to say that much of her export was sold not only at lower prices but at much longer credit (*i.e.* longer time for payment) than were charged and given by British traders; and all business men know that such long credits on a large scale mean a larger percentage of trade *loss*. Germany, accordingly, was a much less wealthy nation; and though she had no such immense financial burden to shoulder as we had in the way of financing allies, her much smaller mass of foreign credits made her quite unable to *defeat* us as she otherwise might by outbuying us in foreign markets.

In so far, then, as finance was a vital factor in the winning of the war, the success of Britain and her allies, up to the time of the entrance of the United States, was due to the gains which had been accumulated by our nation in the aggregate under free trade. And while it is certainly true that finance could not have won the war without a great naval power, to say nothing of the immense armies mobilised by the British Empire, that great naval power in turn rested largely upon the vast mercantile marine which free trade had evolved. The mere

figures (above set forth) of its expansion in the free trade period give the proof. The plain historic fact is that not merely the absolute naval power of Britain, but her power relatively to other nations, has during the World War been at the highest point it ever reached in history.

§ 9. *Troubles of Recent Tariffism.*

On the historic side, it remains to compare the protectionist pictures that used to be drawn in this country of trade prosperity in Germany and the United States with the facts. As we have seen, those countries undoubtedly made great industrial and commercial progress under their tariffs. With their resources and their intelligent and industrious populations they were bound to do so in comparison with countries whose natural resources were smaller and whose peoples were in general less well educated. It would be fair to say of the German population, too, that they made in general a thriftier use of their means than did either the British or the American, though the French fully equalled them in this regard. But it was constantly affirmed by our tariffists that Germany and America were in advance of Britain both in steadiness of employment and in power of trade expansion ; and neither of these statements was true.

In regard to unemployment the allegation was gratuitously untrue. No industrial country has had worse spells of unemployment than the

highly protected United States: and they were especially noticeable during the first five years of the British tariffist agitation which began in 1903. It will be remembered that in that year there was put in circulation an American announcement to the effect that, though the American steel trade, which had been extremely active, was falling off, a leading director of the Steel Trust declared: "We are not going to blow out a single furnace. If we did . . . we should have to turn out of our works into the streets hundreds of thousands of American workmen; therefore what we are going to do is to invade foreign markets." The prophecy was diligently repeated in this country: but what actually took place was made known in September, 1904, by the British Commercial Agent in the United States. His report ran:—

"As is generally the case when the home demand falls off, more attention has been paid lately to export business, and great endeavours have been made to get rid of surplus products in foreign markets. *A notable exception has been the manufacturers of iron and steel.* Instead of continuing their works to the full extent and depending on the export business to dispose of their surplus and thus sustain home prices, they have to a larger extent than usual curtailed production. . . ."

The outcome was that 15,000 employees of the Steel Trust suffered reductions of wages ranging from 10 to 20 per cent: 20,000 were dismissed; and the depression, extending to railways and other industries, threw over 650,000 men in all out of

employment. Such a collapse, occurring in this country, would have been declared by tariffists to prove beyond dispute that free trade was highly injurious to our industrial prosperity. Yet the British steel trade in 1904 maintained the 1903 figure of production (5,034,000 and 5,027,000 tons respectively), though the imports of German and American steel had increased from 281,000 tons in 1902 to 522,706 tons in 1904. It increased its own production to 6,462,000 in 1906; and it was only through a new and great depression in the States that it afterwards suffered shrinkage.

The last period of marked depression in this country, it will be remembered, was in 1908. This was unquestionably the sequel of a much worse trade depression originating in the United States, where it was ascribed to a widespread banking collapse. Here we are concerned with the simple statistics of the resulting unemployment. The figures for Britain were officially derived from the returns of the principal trade unions; and these showed the number of unemployed in December, 1907, to be 61 per 1000, and in February, 1908, to be 64 per 1000; that is 6·1 and 6·4 per cent respectively. But in the spring of 1908 the London *Daily Telegraph*, a protectionist journal, published the following statement from its New York correspondent :—

"In December, 1906, according to the reports of the Department of Labour, in the State of New York 12·8 per cent of union labour was unemployed, but in

December, 1907, the percentage was 34·2. Mr. Herman Robinson, general organiser of the American Federation of Labour, which has good machinery for collecting statistics, says that 34·2 is too low, and declares that in New York City on 1 April at least 40 per cent of the members of the labour unions were unemployed."

According to this authority, 3,000,000 was a moderate estimate of the number of unemployed in the United States at that date. By no estimate was the unemployment in Britain one sixth of that amount, in about half the population.

Such a depression, indeed, in so great an industrial area as that of the States, inevitably affected the industry of Europe; and the depression spread. But it was felt in Germany and France still more than in Britain; for in July of 1908 the French export trade in textiles was reported as practically at a standstill; while in Germany the coal, iron, and building trades suffered severely. In August, 1908, there were 101,300 men out of work in Berlin and its suburbs alone. In November it was stated in a debate in the German Reichstag, without contradiction, that the average annual earnings of coalminers had fallen from £57 to £46; and that the unemployed had increased 420,000 above the normal figures among trades embracing about half the workers of Germany. The total unemployment was estimated by a German economist at 780,000. In the Berlin night asylums, at the same period, the

number of nightly inmates was 74,000 above the figure for 1907.

Apart from direct trade depressions, further, Germany has specially suffered in the persons of the workers from the *subtracting* effect of all tariff systems. Nowhere has the increase in the nominal wage of the workers been so nearly balanced by the increase in cost of living. The fact was that despite the more rapid rise for a time of money wages in Germany than here, the increase in real wages was less ; and the British wage more than kept up its superiority. Forty years ago Germany was a cheaper country than England to live in. This has long ceased to be the case. Where 3 marks in Germany used to buy as much as 5s. here, in 1903 it took 6 marks to do the same, and afterwards still more. On December 24th, 1909, after the special trade depression of the previous two years had passed away, the *Frankfurter Zeitung* declared that "a sadder Christmas Germany has scarcely ever had since the foundation of the Empire. . . . Owing to the short-sightedness of the people who have shaped the policy of the Empire during recent years, the prices of the necessaries of life have reached a height never before attained." Such facts are habitually ignored in the popular advocacy of tariffism. Countries which were represented as models of fiscal sagacity and prosperity were described by their own inhabitants as suffering acutely from their fiscal policy in the main matters of daily life.

The fashion in which the tariff system burdened the working classes in Germany may be gathered from a statement published in 1909 by a member of the Reichstag. It stated that :

"During the year 1908 the price of home and imported beasts and butchers' meat was increased by at least 300 million marks [£15,000,000]. The price of home-grown corn was increased by 463 million marks, and of imported corn by 212 million marks [together £33,750,000]. In 1900, wheat cost 155·30 marks [£7 15s. 3d.] per 1000 kilos in Berlin, and 126·50 marks [£6 6s. 6d.] in London : in 1908 the prices were, in Berlin, 211·20 marks [£10 11s. 2d.], and in London, 150·20 marks [£7 10s. 2d.]. Similarly there is a serious increase in the prices of necessaries *through the taxes on butter, cheese, eggs, fruit, honey, etc.* . . . To these taxes, which can be chiefly traced to the influence of the landed proprietors, must be added the equally grievous revenue taxes, indirect impositions on material commodities. Germany has besides a salt tax, which brought in 59 million marks [nearly £3,000,000] in the year 1907."

A tax on salt is commonly to be taken as part of the fiscal policy of a poor country. It has been reduced even in India, though it still subsists in tariffed Italy. It was an appreciable burden in Germany because, as is remarked by the writer just quoted, "the need of salt is the greater the less meat is consumed ; but owing to the increased cost of meat, vegetarian food predominates among the working classes." Further, the duty on petroleum, yielding nearly £4,000,000, increased the cost of lighting with lamps by 63 per cent ;

and this fell mainly on the poorer workers, with incomes between £40 and £60. Such was the state of matters during a year of severe trade depression ; and in 1909 fresh duties were imposed on articles of popular consumption to the extent of £15,000,000, while the sugar duty of £2,750,000 was retained, though its diminution had been promised. At the same period in Britain, the simple retention of tea and sugar duties was much resented, though Old Age Pensions had just been established.

As to the condition of particular German industries, we have from the Reichstag member the statement that

" There are about 200,000 men and women engaged in the tobacco industry. Their wages are pitiful. According to the official statistics their average wage is 601 marks [£30] a year. Only a small portion of them live in the larger towns. They are for the most part engaged in the country towns and villages. Home work . . . is common. The villages of tobacco-workers are terrible breeding-grounds of tuberculosis. With these distressing wages the mode of living is low. The result of improper nourishment shows itself in the failing power to withstand the germs of phthisis. Seventy-five per cent of the tobacco-workers are consumptive. . . . As the result of the increase in the [tobacco] duty there was an immediate fall in the consumption of the cheaper kinds of cigars. *At least* 10,000 *workers are already now out of employment.*"

At that period, it will be remembered, the consumption of horse-flesh among the German

workers was on the increase, as proved even by figures adduced by tariffists to prove the contrary. On December 25, 1909, the English journal *Milling* pointed out that the price of wheaten bread in Germany was almost prohibitive even for the lower middle classes. They had to use a mixture of rye and wheat which sold at about 10d. the 4lb. loaf. In Italy, at the same time, as a result of the protection of the beet sugar industry, the retail price of sugar of a poor quality was 8d. per lb., and the Italians were unable to preserve their own fruit—an industry much better suited to their country than the growing of beetroot, for which its climate is unfitted. England, with much inferior advantages for fruit growing, imported both foreign fruit and sugar and sustained a larger industry by 'preserving' them. But the protection of the beet-sugar industry was one of the concessions to the landowning interest made necessary by the policy of protecting manufactures. It is the natural consequence of protecting one set of industries that all the others capable of protection demand it in turn.

A notable result of this tendency has been seen in the United States, where, though it was impossible to protect the farmers as regards corn, which the States rarely needed to import, it was possible to protect them by a duty on imported wool. Being so heavily burdened by high protective prices for all the manufactures they had to buy, they could not be refused protection on their

wool. The result has been that woollen clothing before the war was from two to three times dearer than in Britain; with the result that even the well-paid workers in general could not afford woollen clothing; and the great mass of the American people have to wear either cottons or a mixture of cotton and wool—a species of artificial poverty entirely due to the tariff.

As regards steadiness of export trade, it is not disputed that the great cotton industry of Britain has continued to distance all foreign competition. The broad facts in 1909, as set forth by Professor Chapman, of Manchester, were that the aggregate cost of erection worked out in Britain at 25s. per spindle; in France at 35s.; in Germany at 37s.; and in the United States at 50s. On this footing, Britain had 53 millions of the 130 million spindles of the world; the United States (the great cotton producer) only 27,846,000; Germany, 10 millions; and France, $6\frac{3}{4}$ millions. Yet Germany had been in the cotton business long before the day of the Bismarck tariff. If it be replied once more that Britain has special climatic advantages for cotton working, let us turn to the woollen trade, as to which no such advantages are alleged, and which in the days of British protection was with us chronically distressed. In 1913 the Board of Trade gave these figures of the woollen goods export trade of Britain, France, and Germany in the years 1903 and 1912 respectively :—

Country from which exported.	1903.	1912.
United Kingdom	£15,900,000	.. £26,100,000
France	8,700,000	.. 7,700,000
Germany	12,000,000	.. 12,500,000

It will thus be seen that, while France had actually gone down and Germany only increased by half a million under protection, the United Kingdom, under free trade, had increased its woollen exports by over £10,000,000.

This is the record of a time when the general trade of the world had recovered from the depression of 1907–9. The years 1910–13 were nearly everywhere noted as those of the greatest volume of trade ever known. But the heavily tariffed United States had in that period no pretence to make of special well-being. The 'Annual Financial Review' of *The Times*, published on 22nd January, 1912, may be thus summarised as regards the United States :—

1. The volume of trade, for ten months of the year 1911, was a 'record.'

2. The proportion of manufactured goods in the total exports had risen from 15 per cent in 1880 to 45 in 1910.

3. Canadian exports to the States had fallen 6·3 million dollars for the ten months to October.

4. The United States exports to Canada had risen 48 million dollars.

5. There had been a decrease of imports from all the principal countries save the Netherlands, Russia, Japan, and India.

6. "Measured from the standpoint of profit, the year 1911 has been a sore disappointment," especially in the West.

7. The cotton industry had been "completely disorganised for months," owing, it was explained, to the high prices of raw cotton.

8. The iron and steel industry "came almost to a standstill for a considerable length of time."

9. "Prices of commodities, especially foods, were extremely high."

10. "*Wages have not moved in comparison with the cost of living.*"—(Chicago report).

11. "Widespread labour unrest was one of the conspicuous features of the year."

12. There had been more Federal prosecutions and investigations of Trusts than in any previous year.

13. "The movement for lower duties is stronger than ever."

This survey, be it remembered, was given by the leading tariffist journal in England. Could any similar statement have been made of the position of industry in this country, the fitness of its free trade policy might well have been challenged; but the British tariffist propaganda went on as usual, though the American record expressly exhibited the fallacy of all the main lines of tariff theory. The great decrease in imports, and in particular the fall in imports from Canada, with a great increase in exports thither, was from the ordinary tariffist standpoint a great national gain; whereas

the year had been "a sore disappointment" as to profits. In point of fact the reduced imports *meant* reduction of profits. Profit could come only in the shape of imports, and the tariff policy as far as possible shut it out, and taxed what came. Naturally "the movement for lower duties was stronger than ever"—a fact in the pre-war history of fiscal policy which ought not to be forgotten in Britain now that the war is over and a tariff policy is understood to be in contemplation. In Germany and the States the disposition appears to be the other way.

It should be noted in this connection that there have been far more 'ruined industries' in Germany and the States under protection than in Britain under free trade. In Germany there was waged for years a fierce struggle between 'composite' and 'simple' concerns in the iron and steel industries —that is, between undertakings which combined early and late stages of production and those which adhered either to extracting the raw material or to working it up. In that struggle many concerns were put out of action. In the States, again, a normal result of increased protection to any one industry is the attraction to it of extra capital, leading to excessive competition which is cured by setting up a 'trust' or syndicate. Of that the method of operation is to buy out or 'kill out' (by systematic underselling) all producers in the given industry who will not undertake to restrict output and keep up prices. Thus the 'ca' canny'

policy which in Britain is charged against some trade unions is in the States, in effect, practised by combinations of manufacturers for their private profit.

Under this system many factories pass out of existence. As their owners are not always ruined, and frequently make larger incomes by not working their mills than they ever made by working them, *they* cannot be said to be ruined. But the closed factories as such are ruined from the standpoint of British tariffist propaganda ; and it is unnecessary to point out that this policy is not conducive to employment. It is not surprising that under all the circumstances "the movement for lower duties" (before the war) was "stronger than ever." Both in Germany and the United States, for years before the war, an ever-increasing number of voters were thus declaring that 'protective' import duties were intolerably burdensome to the ordinary consumer. In Germany the protest was against the food duties. In the United States it was against high import duties in general. All this is easily intelligible when we note that the cost of living, which (taking the figures for 1900 as=100) had risen in Britain, in 1912, to 115, had in the same period risen in Germany to 130 ; and in the United States to 139.

Much of the agitation for a change of fiscal policy in our own country before the war was due to a vague belief, arising partly out of the general spectacle of American prosperity and the quick

absorption there of much European population, that in the United States life was easier for every one than in Britain. The simple fact that millions of emigrants had gone to the States from tariffed countries in Europe as well as from our own ought to have prevented the hasty inference that a tariff system could set up anywhere the conditions of well-being assumed to exist overseas. But not only was that inference unwarranted from the facts even as believed: the supposed facts were themselves illusory pictures of the actual state of things. Not only have industrial evils in the States during the past generation been as grave as anywhere; not only did child labour and long working-hours remain a reproach to their tariff-protected industry until very recently: the general strain of life under it has been made clear by testimonies which were not directed against tariff policy in particular, and may therefore be taken as impartial for the purposes of our inquiry. Take for instance this account of the life prospect before the average American citizen:—

"If he chooses a commercial career, he sees but small chance for a man of no means or of only moderate means to engage in any pursuit with reasonable hope of success. Statisticians of repute tell him that of all business enterprises undertaken 95 per cent. ultimately fail. . . . If he turns from professional and commercial prospects to till the soil, he is met, where farming is most profitable, by a demand for approximately one-half of all he can earn, one year with another. . . . If a man in middle life has a profession,

he sees the field becoming crowded with young men just out of school ; and while these competitors themselves scarcely live, they secure business enough to cut down his income, or at least to prevent it from increasing as formerly. If he is a merchant, he sees his trade gradually dwindling away because of the department store and the mail order house. . . . If he is a small manufacturer, he sees himself giving way little by little before the merciless competition of the trust. If a tenant farmer, he sees his rents rising year by year, while the increase in the price of lands makes it more difficult for him to secure even a small farm of his own. If he is a wage-earner, he realises that his position becomes more precarious every day, and that to lose his employment is a calamity most fearful for himself and those dependent upon him to contemplate. . . . In the economy of the present day there is no place for the old man." [1]

In England, such an account of things would have been used by tariffists as justifying their demand for a change of fiscal policy.

Finally, the economists of the United States were pointing out for years before the war that one effect of their tariff system was to cause an alarmingly rapid rate of exhaustion in the great national asset of iron ore. American protective duties are laid not only upon manufactures in the natural sense of the term but upon semi-manufactures like pig iron and steel bars, nay, even upon raw wool—a perfectly logical application of the protectionist principle. Of the increasing export

[1] O. R. Trowbridge, *Bisocialism : the Reign of the Man at the Margin*, Moody Publishing Co., 1903, pp. 13–15.

of American 'manufactures,' steel formed a large part. Now, the home consumption of steel in the States is very great, many of the newer cities being largely built on steel frames. Thus a rapidly increasing export and a rapidly increasing consumption together were using up the iron ores so rapidly that it was calculated that at that rate some seventy years would be sufficient to exhaust the known ore in the earth in the United States.

The remedy proposed by the American economists was to encourage, rather than exclude by heavy duties, the importation of iron and steel from other countries. Seeing that the States had already suffered considerably from the rapid and heedless exhaustion of their originally immense supply of timber, the prospect of a similar trouble in the matter of iron—a trouble which could not be cured as the shortage of timber is being cured by re-planting—naturally impressed all thoughtful American citizens. Thus the American population were year by year growing more doubtful of the advantage of their burdensome tariff system, despite their unequalled natural resources, while a section of the manufacturers in Britain were striving to persuade the British people that they would gain by a policy of taxing imports in general.

CHAPTER VI

'THE "GO" OF THE THING'

THUS far we have tested the pleas for fiscal protection partly by argument and largely by the facts of industrial and commercial experience; and we have seen either directly or indirectly the weakness of the various pleas for tariffs noted at the outset of the fourth chapter. They may now be thus concisely answered :—

1. Industries which obtain protection on the plea that they need it to give them a start, never surrender it save under compulsion.

2. 'Cheap labour' is actually declared by the advocates of tariffs themselves to be common in the countries which are protected by tariffs. And this is true, though they cannot see the point of their own avowal.

3. Unemployment, so far from being prevented by tariffs, occurs on the largest scale in tariffed countries; and trade depressions normally begin there. In Britain, under free trade, they usually arrive last and pass away soonest. It was so in 1908–9. War, of course, is another matter.

4. Import duties, if they ever make the foreigner pay in the sense of slightly reducing his profits, do

nothing in that case to prevent unemployment; and they make the home consumer pay many times more than the foreigner ever does.

5. The fear of the drawing away of gold is found to be baseless on an examination of the facts. No country can be so denuded, and Britain in every decade imports more gold than it exports.

6. 'Hitting back' merely recoils on the nation. It only makes our own consumers pay higher prices; and the home manufacturer pockets far more than the State does from import duties.

7. Retaliation obviously does not restrain tariffs. No nation, broadly speaking, is moved by hostile duties to remove its own. It is its own experience of its own import duties (as in Germany and the United States) that moves it towards reduction. At most a nation may be moved by the threat of a high tariff on some of its exports to abstain from raising its own tariff against some goods from a country which hitherto has bought those exports. But generally speaking tariffs only evoke tariffs. It was the old American tariff against Canada that made the Canadians refuse, a few years before the war, to meet the American offer of a new 'reciprocity' arrangement.

8. The fear, largely ill-founded, of having manufactures 'killed' by deliberate foreign underselling, *cannot be removed by a protective tariff.* The United States have one of the highest protective tariffs in the world; yet so lately as 1916 they passed an Act 'to increase the Revenue and for

other purposes,' in which there was a special set of provisions against so-called 'unfair competition.' A tariff, then, will not prevent what is called unfair competition. [The whole question is specially considered in our later chapter dealing with 'dumping.']

9. The question of safeguarding military industries is also specially considered in a later chapter, where it will be seen that a tariff is the worst possible way of doing what is proposed, supposing anything of the kind to be necessary.

It remains further to make clear the reasons why tariffs thus fail to realise what they promise, and why better results have been and will be attained in our own country under free trade than can possibly be secured by a tariff. When we say 'in our own country' it is not meant that free trade is not good for every country. In every tariffed country, as a matter of fact, there are free traders who are convinced that free trade would be better for their own country than the tariff system under which they live. But it is still true that a vast country like the United States, with enormous material resources and a huge area of undeveloped or half-developed land, does not suffer from import duties as ours did in the past, and would do again if they were again imposed. That it does suffer we have seen; and much of the explanation can be gathered from the simple fact that some years before the war bread could be baked here from American wheat and, after bearing the charge of

freighting that wheat across the Atlantic, could be sold here for 6d. per 4 lb., while the same quantity of bread in the States cost at least 1s. Evidently much of the natural advantage of the American resources slipped through the fingers of the American worker. But the constant expansion of the American industrial field made it possible for the population there still to live in fair comfort ; whereas a similar policy here would throw us back into the shallows and miseries of the protectionist period. It is important to grasp the reason why.

During the war, when special measures had to be taken to increase the agricultural output of our islands, there has naturally been some revival of the old feeling that the country ought to be made self-feeding ; and though the plain incapacity even of protected Germany to feed herself during the war must convince practical people that that would be a vain undertaking, there is still a considerable leaning, especially among agriculturists, to the view that at least a great deal more food ought to be raised from our soil than was got from it before the war ; and that *therefore* we ought to revert to the old policy of taxing food (or at least corn) imports, on some such lines as were laid out by Mr. Chamberlain in 1903. It is so clearly desirable, and possible, to increase our food output, that the proposal to do it by protective duties is apt to make a wide appeal, even though the Government has expressly declared that such a

policy is inadmissible in a time of oppressively high food prices. The answer of economic science to the appeal, however, is that while much certainly can and should be done in the way of increasing the yield of the land—whether by a carefully planned scheme of taxation, with security of tenure to competent farmers, or by diffusion of agricultural science—the plan of securing the desired result by import duties would be absolutely ruinous to many British industries, and by consequence to both the maritime and the financial strength of the country.

The avowed motive for agricultural protection is fear of the risks that would attend another war. But the plan itself would be a source of deadly weakness if unhappily another great war should come. What are the proper measures for guarding the world against such a calamity is not a question properly to be discussed in this book. But it is fitting to say that if civilisation is to go on under the fear of a speedy repetition of the terrible experience of the past five years, our policy must have regard to all the main considerations and not merely to one, detached from the rest. A partially self-feeding Britain may conceivably go through another such ordeal, in whatsoever state she might emerge from it. But a Britain previously deprived of her mercantile marine basis and of her sources of financial power could emerge in only one way. She would be broken.

Let us then realise how marine power and

financial strength alike rest upon the continuance of the maximum possible international trade.

The great staple manufacturing export trades of Britain are cottons, woollens, chemicals, iron and steel and products thereof, machinery including cutlery and ships: and all of these industries have also a more or less great home market. Of iron and steel and forms thereof, with machinery and cutlery, the total export in 1893 was £39,000,000. In 1913 it had reached £94,000,000, machinery (non-electrical) alone reaching £37,000,000; while new ships were sold to the value of £11,000,000; and the exports of carriages, motor-cars, and cycles increased from £3·6 millions in 1902 to £7·7 millions in 1907 and £11·3 millions in 1913. Exports of chemicals, which in 1902 stood at £12,750,000, had in 1913 reached almost £21,000,000. All this was surpassed by the expansion of the great cotton trade, of which the exports rose from £72,000,000 in 1902 to £127,000,000 in 1913. The progress of the woollen trade has been noted above, taking its manufactured exports in comparison with those of France and Germany. If we take the gross export, including tops and yarns, we find the totals to have risen from £22,500,000 in 1902 to £37,500,000 in 1913. It may be added that the exports of apparel of all kinds had risen from £9,500,000 in 1902 to £16,500,000 in 1913; boots and shoes alone having increased from under £2,000,000 in 1902 to over £4,000,000 in 1913.

Of our total exports of British raw materials and fuel, which rose from £35,000,000 in 1902 to nearly £70,000,000 in 1913, the bulk was represented by coal, of which the export values had risen from £26,000,000 in 1902 to £50,000,000 in 1913.

Of our total imports of £768,000,000 in 1913, £290,000,000 worth consisted of food, drink, and tobacco, and £281,000,000 worth consisted of raw materials and articles mainly unmanufactured; leaving £197,000,000 worth to be accounted for as 'articles wholly or mainly manufactured.' These totals were the 'record' value of imports in any year. This maximum value of 'manufactured' imports was coincident with a minimum rate of unemployment, and with the 'record' total of exports of British produce—£525,000,000 as against the £283,000,000 of 1902. At the same time, however, the re-exports of foreign and colonial produce had increased from £65,750,000 in 1902 to £109,500,000 in 1913. The net excess of imports over exports was thus only £134,000,000 in 1913.

Not many years ago, there were even prominent public men who held that such a surplus of imports over exports meant the 'drawing away' of gold, which had to go to pay the balance. It is therefore still necessary to reiterate to 'the man in the street' that no such draining away of gold ever does or ever can take place; firstly because there is not nearly so much loose gold in the country at

any given moment as would be required ; secondly, because even the withdrawal of £20,000,000 of gold would cause a shortage, raising the Bank rate of discount, with the effect of bringing the gold back. For ' the foreigner ' (that is, foreign nations in general) has no more wish or need for surplus gold than we. Gold everywhere is for the community at large a simple instrument of exchange, mentally facilitating the movement of things sold as wheels facilitate their physical transfer. The great machinery of bills and cheques represents a much greater development of the mental machinery of exchange ; and gold to-day is used, and is needed (as apart from its use in the arts and in jewelry) only to the extent to which people still come short of settling their accounts by cheques and bills. Should paper money be everywhere safely established, the world could do its business perfectly well without a single gold coin.

As regards the movement of gold between country and country, a glance into the tables of annual export and import of bullion during any long series of years will show that as a simple matter of fact our own country, while dealing largely in the gold that comes from South Africa, keeps from decade to decade more gold than it sends out. The notion of squaring great international balances by gold payments, then, is pure delusion. The only balancing that goes on is the small amount of going and coming of gold in the hands of the special dealers according as they can make a small

percentage in the different markets on the ups and downs of exchange.

Once more, then, the £134,000,000 of excess of imports over exports in 1913 was national *gain*. It was made up of traders' profits on that year's trade, earnings of British shipping, interest on British investments abroad, and payments for banking and insurance and other services. These receipts could not come in gold, as they could not be paid for in gold. Even £20,000,000 of extra gold would make a glut in our gold market, and would just go out again, with the result of bringing in goods instead. If we as a nation are to be paid at all in our foreign trade, we must be mainly paid in *goods that our people are prepared to buy*. At this point, however, the more intelligent tariffist intervenes to comment: "Yes, but they should not be allowed to buy foreign-made goods which might be made at home. Put prohibitive taxes on those things, and our people will have to buy instead raw materials which will be used up in making goods that will be bought in the home market."

Here we have the terms of debate in a nutshell; and our first business is to ask, Is the prediction true? As regards 1913, it is clearly astray at the start, for all our industries were then in full swing; and there was simply not competent labour enough to manufacture much more than we were doing. If the prediction is to be discussed at all it must take the shape of a plea that trade would have fallen away soon, even if

there had been no war, and that *then* there would be unemployment, which could be cured by keeping out foreign goods of kinds capable of being made here. This elicits the further questions: (1) How can you make sure of singling out the kind of imports which would be made at home if the foreign article were taxed? (2) How do you know that the foreign article will not still be bought at an enhanced price, in which case the home industry will gain nothing? (3) How do you know that *raw* materials will be bought instead of the goods objected to? (4) Are you prepared to make your duty high enough to keep out the penalised goods? If so, why not expressly say so, when the usual tariffist plea is for a tariff of 10 per cent? (5) How do you know that, even if you succeed in excluding the goods you tax, *goods will come in at all in place of them?* (6) Your friends have often told us that it is a bad thing for us as a nation that our capital should be invested abroad. Has it not occurred to you that, as tariffed countries have already found, to tax imports is a way to encourage, nay, even to force, our traders to leave more of their profits abroad for investment? (7) What then is going to happen in the end? Do you suppose you can force hither raw material which our manufacturers cannot use at a profit; and if they *can* so use it, do you think they need any driving to make them buy it?

The reasoned protectionist case would seem now to be compelled to take this definite form:

"If by a high duty we *can* keep out (say) American boots or French silks or woollens, our consumers will be compelled to buy English boots and woollens instead; and in that case we shall import, instead of the boots and stuffs, more leather and more wool, and provide more work [it may be, next year] for our bootmakers and wool-workers. If the duties we put on do not prove to be high enough, we can make them higher. But confessedly duties *do* tend in general to keep down the imports taxed; and at the worst we shall be getting revenue from the consumers who insist on buying foreign instead of British products."

To gather what this actually amounts to, we have to analyse broadly the nature of the 'wholly or mainly manufactured' articles imported in 1913. They work out thus:—

	£
Iron and steel and forms thereof	15,231,033
Other metals and forms thereof	32,102,226
Cutlery, hardware, etc.	7,378,360
Machinery	7,282,971
Wood manufactures	3,583,187
Cotton yarns and goods.....	12,249,846
Woollen yarns and goods	10,490,446
Silk yarns and goods	15,115,381
Linen, jute and other yarns and goods ..	9,129.183
Apparel, boots, and hats (of which 8¾ millions was for 'apparel and slops')	5,979,678
Chemicals, dyes, and colours	12,905,515
Leather and leather goods (excluding boots: the great mass being simple leather)	13,430,762

Earthenware and glass	4,546,267
Paper and paper board	7,674,419
Motor-cars, cycles, and railway-cars	7,266,894
Miscellaneous	26,523,624

Of this last large category the only items that exceeded £1,000,000 were curios, cotton-seed cake, skins, stones, starch, toys, and 'unenumerated miscellaneous.' Roughly speaking, three-fifths of the whole import consisted of metals (mostly non-iron), chemicals, leather, paper, and other articles which constitute the raw materials of home industries. Of those articles, further, between £10,000,000 and £20,000,000 worth were re-exported; the total re-exports under the 'manufactured' category being nearly £30,000,000. What, then, could be done for native industry by a tariff in respect of some £130,000,000 worth of imported goods of which the bulk are really materials of manufacture for home industries which sell abroad as well as at home? Nearly all responsible tariffists who profess to be 'scientific' agree that strictly raw materials ought not to be taxed, explaining that the foreigner will not pay on these, because there is so much demand for them. The implication is that our trade is likely to lose in foreign competition if its costs are thus raised. Evidently, then, the same argument must apply to articles like leather, iron, and steel; glass bottles; cotton and woollen and silk and linen yarns, chemicals, and paper. Yet a demand for import duties on iron and steel, leather, glass bottles, and

paper is now being made in the supposed interests of the trades concerned. And seeing that it is very difficult to point to materials that are absolutely 'raw,'—even wool and cotton, for instance, having had some cleansing done to them before packing—the tanners of leather and the makers of glass and iron and steel and paper are entitled to argue that, if import duties lead to the employment of more home labour, they are as much entitled to protection as the makers of boots and cloths and clocks.

The next step in the argument is that if these articles and corn are to be protected against foreign competition, wool ought to be also, as it actually has been in the United States. The sheep farmer has as much right to protection as the corn farmer. Logically, there is thus no standing ground for the protectionist short of putting duties upon every kind of imported article which competes with things produced at home, without regard to whether it raises the cost of production or not. And this is the great danger that we have to fear. For if we at all largely raise our costs of production as compared with those of rival manufacturing countries we shall infallibly curtail our exports, which are for us, with our shipping services, the main means of paying off our foreign indebtedness. The ideal of a completely self-supplying country is no ideal for ours, with its enormous war debt and (on the theory of national danger from reliance on foreign food) its need to

maintain a great naval power. Curtailment of exports and curtailment of imports going hand-in-hand, our mercantile marine must inevitably dwindle ; and the mercantile marine is the great basis of naval power. Our marine cannot hope to survive by doing a carrying service for other nations when it ceases to do the old carrying service for its own. For the first effect of taxes on the imports of iron and steel will be to destroy our supremacy in cheap shipbuilding, as in the production of machinery for export.

This is a consideration never faced by those who insist on protecting our steel industries against unemployment. They assume that import duties to keep up prices will preserve as much employment as ever existed in the past. (Some even seem to argue that the employment figures of the war ought to be maintained in the steel industries ; but as most people see the utter impossibility of this, the point need not be argued. It is sufficient to deal with the plea for import duties to protect home steel producers against foreign competition.) Now, we have already seen how the power to import steel cheaply has in the past meant many contracts for shipbuilding and other undertakings which could not at the moment have been secured at all, at home prices. The effort to keep up steel prices, then, means that we shall miss such employment for the steel-*using* industries, in which case the steel makers will lose trade not merely for the time being but per-

manently. Thus far, while steel-using industries have repeatedly found much employment by getting foreign steel at lower prices than those of the home producers, the latter have *not* been extinguished, but have learned to adapt themselves and recover the home market by cheaper production. And there is always a demand for home steel even while foreign steel is being imported. But if the great steel-using industries of ship-building and engineering are crippled, there will be no future of good employment and good prices for the steel-producers. Unemployment will fall upon all alike.

If once British supremacy in ship-building is lost, supremacy in shipping will follow; and to maintain naval supremacy with a dwindling merchant fleet is a vain dream. Thus it is precisely in respect of national safety that the case for free trade is now most vital, if national safety be still the vital concern which many declare it to be. Financial strength will be lost by the same process that curtails commerce; and Britain will be faced by the prospect of a steady emigration of her unemployed workers and men of business, leaving a shrinking population to bear the crushing burden of a debt that was immense even for a vigorous industrial State such as we were before the war.

So plain is this becoming even to some who used to advocate tariffs that there is a tendency to reduce that advocacy to a set of proposals for (*a*)

keeping out German goods, or (*b*) for 'regulating the exchanges' by keeping out American goods while the exchanges are against us, or (*c*) for 'imperial preference,' or (*d*) for duties on such imports as silk and woollen and linen stuffs, boots, and other articles which may be reckoned wholly manufactured, as distinguished from leather, which though in itself a manufactured article is the material for great industries. The first three of these proposals will be dealt with separately in later chapters. The fourth may be dealt with here and now; and its consideration will complete the main survey of the *pros* and *cons* as to protective duties.

It is the fact that we import manufactured articles of certain kinds from countries to which we actually export articles of similar kind but different grades of quality; and these dealings back and forth in similar grades of course also occur between industrial countries in general. Thus we used to import certain special qualities and shades of woollen goods from France while selling her stronger qualities; and to import cheap heavy boots from Germany while we exported boots of better qualities to that and other countries; or imported fancy boots from France as against stronger boots which we sent there. The explanation is that in some cases plant is set up for specially cheap production in some countries, while in others special devotion to the artistic side of an industry attains results not equalled elsewhere.

To a large extent, British industry has developed on the higher levels rather than on the lower. Thus we produce the finest grades of cottons; and in the metal industries run more to the use of iron than to the smelting of it. Our bootmakers preferred making the better boots, and left to rivals the trade in the cheaper. That, they said, was not worth their while.

If, then, we should tax imports of cheap boots we shall merely make workmen's boots dearer to them on the plea of employing other workmen; and if we tax heavily enough fancy boots and silks and fine woollens we may indeed force consumers to do without these; but we certainly cannot count upon making work for our own people to the extent of an equivalent consumption of our own produce. But even if we could, we simply tend to curtail to the same extent our own exports of other goods. For (apart from the payments of interest and freights that they may owe us) *foreign countries cannot buy from us unless they sell to us;* and the attempt to ensure by import duties that they shall sell us only certain things merely makes them take more trouble than ever by the same methods to make sure that they shall buy only certain things from us. All such attempts mean, among other things, uneconomic use of labour in customs services, and much costly friction in the application of the tariffs. In New York, after the last tariff readjustment, there were 30,000 law actions arising out of the tariff in one

year. All this is pure waste. To 'make work' by creating a number of paid posts for men whose work hinders rather than helps production is to impoverish the community as a whole. Thus all tariff duties work out in higher costs of living; and to say, as some still do, that "it is better to have higher cost of living with steady employment than lower costs and unsteady employment" is merely to falsify the facts. Employment never has been and never will be made steady by lowering the purchasing power of wages.

Since the conclusion of the war, we have had in our own country object lessons of the futility of restraints on imports as a means of preserving employment. During the war, not only were duties imposed in order to curtail the imports of certain articles of luxury in the interests of national economy, but actual prohibitions were placed upon other imports in order to economise shipping for the most pressing needs. Among the articles thus dealt with was paper. Some time after the armistice, it was found that a quantity of paper was available from Canada at much lower prices than were being charged by paper-makers here. At that time 'imperial preference' was already being talked of as an almost obligatory policy. Yet the controlling authorities refused to admit the Canadian paper, not on the score of lack of shipping, but on the ground that if the paper came in there would be unemployment in British paper-mills.

There could hardly be a better illustration of the blindness of tariffist policy. Employment in the paper industry is inadequate precisely because the prices are so high. A multitude of publishing schemes are being held up solely because of the high costs. An influx of cheaper paper which compelled the mills to sell cheaper would set moving a hundred wheels of trade; there would be much more work for compositors; paper of both higher and lower grades would be in greater demand; and soon the mills would be employed on a sound trade basis as fully as before. As it is, there has occurred in the British publishing business a portent never seen before. Tenders have come from American printers to British publishers, offering to print and bind books for the British market at lower prices than those at which they can now be produced here. This is made possible only by high costs of material: it is not a matter of labour costs. If the American tenders are accepted, printing work will go hence to America; and the next development will be a demand from British compositors that a prohibitive import duty shall be put upon all books coming hither from the United States. To such a pass may we come within a year by a foolish official departure from the policy of free trade under which our industry grew to be what it was before the World War.

CHAPTER VII

COUNTRIES SEPARATELY CONSIDERED AS TO TRADE

ONE of his Majesty's Ministers recently told the House of Commons, without revealing what policy he actually contemplated, that if a tariff is to be imposed it should be differently adjusted in the case of countries where 'the exchange is against us' and those where it is not. The meaning of the phrase quoted should here be explained.

When, in the course of the financial relations of any two countries, A and B, the payments due from A to B are appreciably greater than the payments due from B to A, the price that has to be paid in country A for credit 'paper' of any kind (*i.e.* bills or cheques or promissory notes) that will serve to pay debts in country B, tends to rise, simply because there are more buyers than sellers of such credit. The sellers are the people who have money owing to them in country B; the buyers are those who are owing money there and have to remit in payment. If the rise goes beyond a certain point, it becomes cheaper for the bankers or money dealers of country A to send gold to country B to restore the balance. When that point

has been reached, the 'exchanges are against' country A until gold payments have balanced them. But if the drain of gold should still continue to an appreciable extent, the banks of country A (supposing it to be a country with a gold standard) will so raise their rate of discount that it does *not* pay to send gold to country B, and the exchanges still remain 'against' country A.

In this state of things, having regard to the small margins of profit at which a vast amount of trade is carried on by middlemen, there is a widespread risk of money loss. But then comes into play the automatic balancing power of trade itself; in country A it becomes profitable for exporters to send to country B produce of various kinds at prices which it could not previously have been sent for; and in this fashion, usually, the balance is secured. These disturbances of the exchanges are constantly going on in times of peace; and any country may for a time have the exchanges against it. Half a century ago, when Britain was the chief creditor country for the United States, the exchanges during one part of the year would be against the States because they had to make large payments to London for interest, freights, insurances, and so on; while in another part of the year, when large amounts of corn, cotton, and tobacco were coming from the States to Britain, the exchanges would be against us. In those days, quantities of gold went back and forward between the two countries, though even then international

trade also played a rectifying part. Latterly, however, new financial machinery was set up by which great trust concerns with branches in both countries, whose operations sometimes make it needless to send gold either way when but for them it would have been necessary, and sometimes cause special strains by their speculative operations. In the end, it is always trade that pays the penalty, sometimes in fall of prices, sometimes in absolute unemployment through depression of trade.

During the war, a new set of financial relations arose. Britain had to buy immense quantities of munitions from the States, and latterly much greater quantities of food than ever before ; and in this state of things it was absolutely impossible to balance the exchanges by means of gold. When we resorted to a paper currency, all our gold, broadly speaking, went into the gap ; but that was a trifle compared with the vast national transaction. American and other foreign securities in British hands were next requisitioned ; and still, after a time, the balance could not be maintained without a large American loan. Now that the war is over, with 'indemnities' looming very dimly on the far horizon, our very great indebtedness to the United States keeps the exchanges against us to such an extent that our trade—what there is of it—is at a distinct disadvantage. In such circumstances it is a very important question whether our Government should continue to use

special financial measures to 'rectify the exchanges' in the general interests of our commerce. The time is not in sight when movements of gold alone can avail to effect a balance, though gold produced in the Empire is one of the commodities which will be exported to that end.

Some authorities argue that the proper plan is simply to let trade take its own course; and for this there are strong arguments; though careful people will be slow, in view of the unprecedented nature of the situation, to decide quickly that nothing can be gained by financial operations on the part of the State. We are met, however, by a third proposal, to the effect that we can 'help the exchanges' by means of import duties upon American goods; and the Minister above quoted seems to take that view. A little reflection, nevertheless, will show that whichever of the other two courses may be preferable, this one would be wholly bad.

Before the war, the statistics of imports and exports always showed a much larger quantity of things coming from the States to us than we sent to them. In 1913 the imports were, in round numbers, £130,000,000, and the exports of British produce under £80,000,000; in addition to which there went another £80,000,000 of 're-exports,' that is, foreign and colonial produce passing through the British markets. Tariffists in such case used to say that the other country bought from us only so-and-so, while we bought from them

so much more ; but this only conveyed the usual delusion. It is true that all the articles imported to the value of the £130,000,000 were bought by British consumers, either in wholesale or in retail ; but on a book-keeping balance a very large amount of these values meant payments (as already explained) of interest on British investments, profits on British exports, freight charges, and insurance charges due to British underwriters. Such payments had to come in goods if they were to come at all.

But, further, a very large amount of the American consignments went to finance the large expenditure annually made in Britain and on the Continent by American tourists. It was reckoned that these spendings annually amounted latterly to forty or fifty million pounds sterling. Part of this went to buy durable articles which were taken home by the tourists and did not appear in the statistics of trade on this side at all, though they might figure in those of the States when they were taxed on landing. But the bulk of the £50,000,000 or so went to pay for the living and travelling expenses of the tourists and for their passages on British or Continental steamships. If, then, we reckon (*a*) £10,000,000 or £15,000,000 as being spent by American tourists annually in Britain in excess of what was spent by British tourists in the States ; (*b*) the amount of interest on British investments in America in excess of that on American investments in Britain ; (*c*) the

very large sums earned from America by our shipping; and (*d*) those earned by our underwriters and other insurance agencies, it will be seen that there was no very great balance to be liquidated by exports to the United States from countries in Asia and elsewhere to which we sold more than we bought from them.

Coming to our immediate problem, we have to note that the £130,000,000 of our imports from the United States in 1913 were constituted as follows:—

Food, Drink, and Tobacco	£48,341,434
Raw and mainly unmanufactured materials	58,637,101
Articles wholly or mainly manufactured .	22,988,138

Now, the idea is to keep out as much as possible of these imports by a tariff, consistently with our own national interests; and the ordinary tariffist plan would be to put the tariff on the £23,000,000 of 'wholly or mainly manufactured' things. But we have already seen that a large proportion of this category is really material (steel and leather, for instance) that is for all practical trade purposes as truly raw material for our industries as cotton; and that to raise its cost is to injure our export trade exactly as we should do if we were to tax imports of cotton or wool. There is, in short, only a very small quantity of completely manufactured articles, ready for the final consumer (such as watches and boots), which could be taxed without injuring productive industries of our own; and the notion of 'rectifying the exchanges' by operating

on these things with a tariff is really childish. The amount of values affected is too small to count ; and the *effect* of meddling with them by a tariff will be disastrous to ourselves.

Avowedly, the object is to *keep the goods out altogether*. For this purpose there will be required a *very high tariff*. If we thus treat any single industry in a foreign country, that industry will loudly and justifiably demand that its legislature shall retaliate upon British goods in general for the invidious treatment we have meted out to it. In tariffed countries, above all in the United States, these things are easily managed. The outcome will simply be that *British goods will be newly discriminated against*, just when it is of special importance to us to be able to export as much as possible to pay our American debts, and *thus* ultimately ' rectify the exchanges.'

For, obviously, all other methods of rectification are merely temporary expedients. Only output of production ever did or ever can rectify such a balance as now stands against us in our total financial relations with the States. To handicap ourselves further by inviting them to raise their tariffs against us *at a time when the American people are much inclined to reduce their tariffs* would be a tragical act of national unwisdom. If we are to impose any further duties at all on American imports, the one thing we can tax without creating counteraction (since in that case we should not be protecting a British industry but merely increas-

ing a revenue duty already levied) is tobacco. But the consumption of tobacco has been surprisingly little affected by the great increases of duty put upon it during the war (excitement having apparently heightened the average inclination for it); and though a much greater increase would doubtless cause a decline in the imports, the amount affected out of the total quantity would be utterly insufficient to ' rectify the exchanges.' Of course, if we discriminate against American tobacco by a special anti-American tax, making that dearer than any other, we shall simply incur a general and injurious retaliation, as above indicated. The tobacco interest in the States has always been one of the very strongest.

When we turn to the case of Germany, the argument about rectifying the exchanges by import duties begins to assume a comedy aspect. In the very debate in which the Minister above quoted put his point that tariffs must deal differently with foreign countries according as the exchanges have been substantially affected by the war, a tariffist member argued that Germany, *because* the exchanges are heavily against her here and elsewhere, will be able to produce and export at much lower costs than those of other countries ; and that *therefore* we shall need a special tariff against Germany. It is unnecessary here to go into the quaint conundrum thus propounded to a perplexed legislature. It is sufficient to notice that while one set of tariffists argue for a British

tariff against American goods because in America the exchanges are against us, another set *at the same moment* argue that we must have a tariff against German goods because here the exchanges are against Germany. Perhaps even the tariffist reader will admit that both propositions can hardly stand simultaneously, whatever use the advocates of either might hope to make of either singly at any particular time.

In this connection should be noted the impossibility of testing foreign trade, as is sometimes proposed by tariffists, in respect of the so-called 'trade balance.' On that head it has been pointed out that in 1913 we took from Germany £80,000,000 worth of goods, while she took from us only £40,000,000 worth. The statement omits, to begin with, the facts that we sent to Germany another £20,000,000 worth of foreign and colonial produce, and that of the £80,000,000 she sent to us about £4,000,000 worth was passed on. The balance of trade was thus very much the same between us and Germany as between us and the States. That the difference was not due to tariffs may be seen from the case of tariffed France, to which we sent (in round numbers) £29,000,000 worth of our own produce and £12,000,000 worth of foreign and colonial, while taking from her £41,000,000 worth—an exact balance. If we were to penalise the imports of those countries who in the statistical tables figure as buying less from us than they sell to us, we should have to begin with

our Ally the United States, and Russia. We bought from the latter in 1913 £38,000,000 worth of goods, nearly all of it foods and raw materials, while she bought from us only £18,000,000 worth.

If on the other hand we catalogue the countries to whom we sell more than we buy from them, we obtain a curious list :—

1913.	*Bought from us.* £	*Sold to us.* £
Italy	14,610,057	7,423,234
Greece	2,536,678	2,138,458
Turkey	7,761,644	4,668,005
China	14,845,269	2,903,592
Japan	14,530,432	3,818,467
British India	70,273,145	36,118,225
Australia	34,470,452	26,087,231
Natal	5,053,173	1,773,342
Cape of Good Hope	10,812,259	4,058,331
Transvaal	5,751,926	188,710
Southern Nigeria	3,410,184	1,738,178
British W. Indies	2,405,442	1,708,649
Brazil	12,465,115	4,586,466
Chile	6,010,481	4,267,251
Mexico	2,223,082	1,699,670
Portugal	3,270,701	2,490,393

The list is not complete ; but it is sufficient to show how unintelligent is the principle which would make fiscal foes of all who buy less from us than they sell to us. *Vice versa*, on that very principle, we are the commercial foes of our best customers. Turkey would by us be reckoned a friend and Spain a foe, and *vice versa* ; and New Zealand and

Canada would be reckoned undutiful children, as against Australia and South Africa, because they buy less from us than they sell to us. In point of fact, the balances have little or nothing to do with the various tariff systems, but much with the geographical relations and special needs of countries, and something with the movement of capital for investment for the time being. Italy, Greece, and what was Turkey, relate to us in very much the same way ; and so do China and Japan, though Japan has a high tariff and China has not. The trade between us and South Africa is to be understood finally in the light of the gold production of the Transvaal mines. In 1913, of a total import of £59,500,000 of gold, we received £38,000,000 from the Transvaal. Against that sum there could not possibly be an equivalent export : it represented a special financial transaction, in which British shareholders were beneficiaries. Incidentally, it may be noted that while we imported £59,500,000 of gold we exported only £46,000,000.

The main political lesson of the figures above considered is that China, our Ally and good customer, is, as tariffists would put it in our own case, penalised on her tea in our markets, while Japan, a zealous trade rival though an equally good customer, also our Ally, suffers merely in respect of those of her taxed products which may compete with those of India and other parts of the Empire ; and Italy, our Ally, is like our other Allies

France and Portugal, penalised in respect of her wines as compared with Australia and the Cape, though she buys from us twice as much as we buy from her. Canada and New Zealand, again, get preferences though they buy less from us than we from them. Evidently there is no relation between the tariff policy applied under Imperial Preference and the principle of penalising those customers who buy less from us than we from them.

As regards Germany, the case is at bottom very simple. By the Peace Treaty, the Allies have expressely imposed on her the obligation of admitting the produce of Ally countries to German territory on equal terms with that of other countries. It does not appear politically conceivable that the Allies can then proceed to discriminate on their own part against German produce. There will, indeed, be a spontaneous private discrimination against finished articles of German manufacture in Ally countries, at least in ours, for a long time to come. But it is fairly certain that, whatever our traders may do, those of the allied countries will not refrain from using German raw materials where those are useful to them. Large transfers of German raw material are in fact the only way in which Germany can begin to pay her indemnity obligations; and large output of manufactures is the only way in which she can ultimately complete those payments. Those who talk of compelling her to pay adequate indemnities and at the same time to withhold from

her all save a small quantity of raw material, exhibit themselves once for all as unqualified to discuss such a problem.

If, on the other hand, German goods are subjected equally with those of other countries to a tariff in our markets, Germany will have open to her a very powerful remedy. She need only resort to the system of free imports which, in the case put, we shall have abandoned. All the economic laws through which Britain prospered with a free-trade policy will work for Germany as they once worked for us. Seeing that the German Government actually announced through one of its ministers some months ago that that is the policy they contemplate, the British people have pressing cause to take counsel together as to whether they are to give up their post of vantage to the sometime enemy. As a matter of fact, arrangements appear to be already made for the evacuation.

CHAPTER VIII

THE AIM OF IMPERIAL PREFERENCE

NO explanation which has thus far been given of the kind of imperial preference set up in the 1919 Budget makes it intelligible as a piece of imperial policy. It involves a loss of revenue amounting to over £3,000,000 in an ordinary year, and it holds out no prospect of any gain worth mentioning to the trade of our Dominions over seas. The preference given is by way of a reduction upon their goods of import duties which are already in operation—that is to say, the regular revenue duties on alcohol, tobacco, tea, coffee, sugar, etc., and the special duties imposed during the war on a number of articles, as pianos, motor-cars, films, clocks, watches, etc., for the double purpose of checking expenditure and saving tonnage. Of those manufactured articles a very small quantity has come from the Dominions ; and though the new arrangement is very likely to lead to the establishment by United States capitalists of works in Canada to make such articles and so obtain the benefit of the preference in Britain, it does not seem likely that that could have been a motive with the British Government in imposing it.

As regards the kind of produce coming under the old revenue duties, it is equally difficult to guess how the preference can have been supposed to be worth giving as (what it is declared to be) a reward to our kinsfolk beyond seas for the splendid services they rendered us during the war. Precisely because those services were so splendid, a set of small doles by way of preference on wines and tea and coffee and sugar has the aspect rather of a humiliating gratuity than of a compensation. In the case of tea, the benefit goes solely to the capitalists, mostly British, who produce tea in India and Ceylon; and as nine-tenths of the tea consumed in Britain is already that which they produce, and China tea is taken by most of those who consume it for hygienic reasons, being already dearer than Indian, the policy on that side is more unintelligible still. All round, only a few small sections of the producers in our Dominions can be said to have any prospect of benefit from the preference. When Mr. Chamberlain in 1903 proposed Imperial Preference, he proposed to give it on wheat, which is largely produced in Canada, Australia, and India. For obvious reasons, that proposal is not now made. But it is the only proposal which could have any financial importance for our Dominions at present. Canadian trade could gain at the moment by letting in Canadian paper; but for months this has been absolutely prohibited under the special war powers.

Further, whatever may be said to the contrary,

there has been no popular request for preference on the part either of our self-governing Dominions or of India. It would be strange if there had. To have asked it as a reward for a great service would have been to reduce that service to a commercial transaction ; as is in effect done on the British side by those who represent the preference actually given as a fitting gratuity for the laying down of much priceless life and much treasure by our kindred. Nay, more, the Australian press in particular has repeatedly proclaimed that preferences are not asked for by the Australian people ; while from Canada we have had a fairly explicit official intimation that what was wished by the trading or producing classes there was not preference at all, but a provision of new transit facilities for commerce between Canada and Britain. On May 18, 1917, Sir Robert Borden, the Canadian Prime Minister, delivered a speech in which he explained that what was desired by his Government in the way of preference " does not involve any taxation of anything." It was, in so many words, " better and cheaper facilities of communication."

It has generally been understood that this was an appeal for a line of subsidised steamships between Britain and Canada (on the lines of an older proposal for an ' All Red Route ') which should carry Canadian produce at rates below those paid by American produce in the ordinary way ; and it was believed that the War Cabinet had assented

to such a scheme. If so, the Government are to be congratulated upon having afterwards realised the folly of it. The establishment of a line of State-subsidised shipping between Canada and Britain would have been immediately followed by the establishment of a rival subsidised line in the United States; and there would have ensued a 'freight war' between the two countries which had been triumphant Allies in the War of Wars. In such a freight contest, under present shipping conditions, the United States would have been easily the winner.

But though they have avoided that folly, the Government, in establishing preferential duties for the Empire by reducing existing rates in favour of our Dominions, has taken a course which, while it gives, as we have seen, no appreciable advantage to the Dominions, promises to put us at a very grave disadvantage when our Allies and other industrial countries revise their fiscal systems as we have done ours. By professing to give our Dominions a commercial preference in acknowledgment of their noble comradeship in the war, we in effect tell our Allies that we owe them no such acknowledgment. France, Belgium, Italy, and the United States all stood by our side through the storm, and now we tell them that we propose to tax their goods more heavily than we do those we buy from our own Dominions. Thus wantonly flouted at such a moment, they are not likely to show any supererogatory consideration for our trade. It is

idle to say that they have no cause to resent our bestowing a favour on our kinsfolk. We have announced, in the words of Mr. Hughes, that we propose to look solely to our own interests. They are in effect compelled to do the same.

It had indeed been proposed by many of our tariffists to placate them by giving them better tariff treatment than we give to the Neutrals, who in turn were to get better treatment than was to be given to the trade (if any) of those who had been our enemies in the war. But the Peace Treaty, as has been already remarked, appears to veto all such preferences as between Allies and former enemies ; and it is hardly conceivable that it will now be proposed to penalise Neutrals, many of whom have suffered very severely throughout the war.

Our Allies, then, will simply find themselves on a level with the Neutrals and our former enemies in trade with us, as against the preference given to our Dominions. Unless, then, they all alike decide to head towards free trade, as some people think they will, they are likely to seek the remedy of unanimously refusing to give to our trade the ' most-favoured-nation ' treatment which they will give to each other.

If this should mean that Germany will get from and give to our former Allies the most-favoured-nation treatment which we lose, the spectacle will be one to give pause even to the zealots of tariffism. If it includes the portent of a free-trading Germany, stepping into the great

heritage which we appear to be on the way to renouncing, it will be still more staggering. But the latter part of the menace appears to be on the way to realisation. The only explanation of the preference already given to our Dominions appears to be that it is the pretext and foundation for a greatly widened tariff. On the very ground that the boon to our Dominions is so trifling, it will be proposed to increase the number of articles subject to tariff. The more imports we tax, the more possibilities there will be for preferences. To say as some professed free-traders do that the preferences, being *reductions* of existing duties, point in the direction of free trade, is to be very credulous indeed. If that were the aim of the policy, the whole parade of preference would be a peculiarly gross fraud upon those of our kinsfolk beyond seas who are declared to be the objects of our national goodwill. If preference is to go on subsisting even on the present small scale, there must be import duties to make it possible. If it is to be extended, the tariff must be extended accordingly.

The menace, then, can hardly be overstated. We are faced by the prospect of a Free Trade Germany confronting in the near future a tariff-ridden England.

To realise the gravity of the danger we must revert to the contrast we have already drawn between the natural potentialities of Britain and America. Fifty years ago, as aforesaid, the United States, after the Civil War, was the most

greatly indebted nation as regards foreign creditors, and Britain was the great creditor nation. What enabled the United States to recuperate as they did was their immense possession of natural resources. The annual output of cotton, tobacco, and grain alone, to say nothing of other foods and raw materials, was amply sufficient to rectify exchanges in the mass. Subsequent American indebtedness was set up by the borrowing of foreign capital for the fuller exploitation of natural resources ; and the gain always more than made good the debt. The grain crops of the United States rose from the figure of 1,127,499,187 bushels in the year 1865 to 2,700,000,000 bushels in 1883 ; while the railway mileage rose from 33,908 in 1865 to 128,320 in 1885. In 1906 it had reached 222,635, while the total corn crops had increased to the stupendous total of 4,414,000,000 bushels.

Of this total, more than half (2,592,000,000 bushels) was what is 'corn' *par excellence* in America, and is called by us Indian corn or maize. It is largely consumed as human food, but mainly as food for cattle and pigs. The total number of farm animals in the States in 1907 was 72,500,000, valued at 4,423,000,000 dollars ; and the value of the export of meat and dairy produce, including bacon, was £40,000,000 ; while that of breadstuffs was over £36,000,000. Cotton production, which had reached 4,861,000 bales in 1860, but stood at only 2,154,000 in 1866, had in 1907 risen to

13,510,000 bales; and the exports of raw cotton in that year were valued at £96,000,000, as against only £4,000,000 worth of cotton manufactures. Copper exports alone amounted to over £18,000,000, those of wood and simple manufactures thereof to over £16,000,000.

Yet again, the production of iron and steel in the States in 1906 stood at 47,750,000 tons as against the British production of 15,500,000 tons; the pig iron and steel production in the States stood at 25,300,000 tons as against the British figure of 10,200,000, attained in large part by *importation* of ores and pig-iron: and the iron ores 'in sight' in the two countries showed a still greater superiority of resource in the States. In addition to their output of iron, the States raised in 1907 no less than 394,174 metric tons of copper, as against 80,330 tons raised in Mexico, 64,731 tons in Spain, 22,858 tons in Germany, and 677 tons in Britain. It seems unnecessary to point out, even without taking into account the other metallic resources of America, that it is utterly impossible for Britain to achieve anything comparable with the American expansion. And Britain is now loaded with a national debt ten times greater than that of the United States after the Civil War, to say nothing of the transfers of British securities to American hands.

The one natural resource in which Britain still stands high, as compared at least with her European rivals, is coal; and concerning that

many tariffists had in recent years been professing alarm over the rapid reduction of a 'national asset.' At present, the complaint is that owing to labour troubles we raise too little. Howsoever these may be solved, it is clear that Britain's hope must lie in her manufactures, which, with her shipping, have in the past won for her a wealth and power out of all proportion to her natural dowry as compared with that of the United States. It matters not whether or not her coal mines are nationalised : the cardinal national asset is the energy and industry and enterprise of her producers of all classes. If that industry and that enterprise are to be hamstrung by a fiscal policy which all our past experience shows to be ruinous to national prosperity, the economic sequel of the World War will be for us a more stupendously tragical thing than the War itself.

Before the war, free trade conditions had brought it about that London was the credit centre of the world. For this, indeed, other reasons than free trade might be in part assigned. The gold standard, the stability of government, the equity of law, all contributed to keep British credit in high repute. But these alone could not have brought it about that nine bills were drawn upon London for every bill drawn in London upon the rest of the world. There were in operation two economic factors: (1) the absolute freedom of entrance in British ports for the vast mass of normal produce, with a balancing of revenue duties

by excise duties where our own people produced a taxed article : and (2) the large annual surplus of imports over exports resulting from the relative advantageousness of production and shipping under free trade conditions.

To regain that state of relation to the trade of the world is the obvious need, now that the enormous financial strain of the war has upset it. If experience can give any guidance at all, the way to recover the sound position is to follow the policy which demonstrably built it up. We are told, however, that we ought to 'learn from the war,' and that the only lesson to be learned from it is to offer trade bribes to our Dominions and follow the tariff policy which had demonstrably made every State in Europe financially incapable of bearing the strain actually borne by us. The phrase about 'learning from the war,' then, would appear to be a 'shibboleth' of the most inane description. Those who use it raise a question as to their own capacity to learn from anything. They are, in fact, merely repeating, with a vague appeal to sentiment which will bear no analysis, the kind of arguments that had been a hundred times confuted during the ten years before the war. An examination of the more prominent of those arguments in their latest form will serve to make this clear to the student.

CHAPTER IX

DUMPING

THE vogue of this word is one of the instances in which a slang phrase or an expressive vulgarism comes to attain the dignity of a technical term in a science. 'Dumping' is not recognised even in the 1907 edition of Webster's Dictionary; but the trade practice it labels was well enough known long before that. To 'dump' primarily means, in the vernacular, to drop or put a thing down heavily, and it is the normal description for the depositing of loads of earth or refuse on waste ground. It thus serves to express the sentiment with which traders view the sudden introduction into their market of a quantity of goods from abroad, sold at an embarrassingly low price. Like most of the developments of modern commerce, the exportation of surplus stocks at a low price in order to 'cut losses' is a British invention. It used, in fact, to be known to Continental economists as 'the English practice.' And though the word has been perhaps most vigorously worked in this country during recent years, the complaint which it expresses is perfectly familiar in every industrial country that is protected by a

tariff. The statement once made by an eminent politician to the effect that ours is the only country upon which dumping can be practised, because of its open ports, is one of the more amazing of the fictions in support of tariffism.

We have noted an apparent instance of the practice at the close of the American War of 1812, when shiploads of British goods were sold off very cheaply in the States. But that was not a case of intentional 'dumping': the exporters had hoped to sell at good prices, and simply failed to get them. Dumping proper is now defined by economists as the selling of goods in any country at a price below the cost of production for the time being in the country of origin. It is an expedient of the age of large industry, and was first practised in a regular way by British producers or merchants because large industry was first developed in Britain. But the manufacturers of protectionist countries soon learned to resort to the device; and the countries have latterly dumped upon each other so often and with such zeal that the most highly protected have felt driven to set up yet a higher protection—a wall on the top of the wall—to guard them against the kind of competition which they themselves chronically practise.

It would be difficult to say whether free-trading Britain or any of the tariffed countries resorts the more often to sales of surplus stocks at prices below cost; but the presumption is that it is the latter who 'cut' their prices to the largest extent, simply

because their costs of production are the highest. In a country with a 30 per cent tariff, for instance, either the costs rise proportionally or the manufacturer is putting into his own pocket the whole extra profit which he has been allowed to make out of his countrymen on the plea of improving the position of labour. Raised costs in one industry lead to raised costs in another; whence arises the tendency to go on raising tariffs till they become intolerable. If, then, a protected manufacturer wants to dump upon a free-trade country, he must lower his prices more than 30 per cent to do so; while if a manufacturer in the free-trade country wishes to dump on the other, a 5 per cent reduction of his prices will serve to do it. As against each other, however, protected producers in different countries vary in their facilities for dumping, in proportion to their respective tariffs.

Two accounts of the causation of dumping have been put in currency by tariffists. Mr. Chamberlain, while alleging that Britain was the sole victim of dumping, admitted that that practice was commonly resorted to by other countries only in times of depression. Those who accepted this explanation, however, found themselves embarrassed by the implication that trade depression in tariffed countries was not infrequent. There came into fashion among them, accordingly, an entirely contradictory formula, to the effect that it *pays* protected manufacturers to export goods below the cost of production of the goods they

make for the home market. Another eminent politician has summed up the case thus:—"The protected manufacturer, having a large market secured to him, can work at a relatively low cost. When, further, he has made his profit, he can produce surplus goods at a still lower cost, his establishment charges having been already met; and these goods he can sell abroad at prices with which the unprotected manufacturer cannot compete."

There are embodied in this proposition three gross fallacies; besides two avowals which ought to be sufficient to discredit all tariffist propaganda. One of these is the avowal that the protected manufacturer is getting the protection of a tariff while his costs of production are actually lower than they would be without it. In a word, he must make too much profit if he is to make enough! The second avowal is that the protected manufacturer habitually sells dear at home and cheap abroad. This confession, coming from a party whose professed watchword was 'Make the foreigner pay,' seems cynical enough to mortify even tariffist faith.

The fallacies are equally remarkable. Firstly, an absolute confusion is made between the two wholly different conceptions of producing for a large market and producing individually on a large scale. A thousand manufacturers may produce for a 'large' market, and ten for a smaller one; and the ten may have larger factories than any of the thousand. In the United States and else-

where, protection has had the effect of tempting too much capital and too many competitors into given industries ; and there were for a time more small factories than large. Then the larger factories made ' combines ' to buy out or kill out the small ; and upon those ruined industries there has arisen a system of production which is substantially a fraud upon the nation as a whole. Mr. Kipling has told of an American manufacturer of his acquaintance who, though protected, at one time lived a life of great commercial anxiety. Years afterwards, meeting his friend and finding him looking very contented, the distinguished author took it for granted that the factory must be doing very well, only to receive the answer that the factory now was not going at all. The explanation was that its owner received a much larger income from the trade syndicate for keeping it closed than he had ever earned by working it. Such are the moral beauties of protection.

The second fallacy is that the unprotected manufacturer has only a small market because foreign competition is allowed to enter the home market. That this should be said in England is an illustration of the unlimited possibility of hallucination even in regard to matters of the plainest fact. The Lancashire cotton industry is less subject to foreign competition in free-trade Britain than is the protected cotton manufacture of the United States. In that country the *imports* of cotton manufactures in the year 1907 were valued

at over £14,000,000, against *exports* valued at only £6,000,000 ; while in Britain the total imports of cotton manufactures in the same year were valued at under £10,000,000, against *exports* valued at £110,000,000. And of the £10,000,000 of imports, £3,000,000 were re-exported ! Thus the tariffist argument breaks down hopelessly on the notorious statistical facts, as officially published in both countries ; and this even as regards the unprotected home market in this country.

On the other hand, the export figures show that the British trade has an immensely larger foreign market than the American—a trade, that is, in markets where they compete on an equality. On the theory we are discussing, the protected American trade ought to undersell the British both in Britain and abroad through its alleged power to produce more cheaply by reason of its large secured market. It does nothing of the kind. The whole thesis is a hallucination.

Tariffists, pressed upon this point, fall back confusedly on their other plea that the British cotton trade had a 'start,' thereby in effect stultifying their own plea that a tariff can *secure* a start for a new industry. A start that defies protected rivalry for a hundred years would seem to make protection a rather hopeless expedient. The simple fact is that the British cotton industry has actually done what the tariffist argument pretends is possible only under protection. With no secured market whatever, it has developed

large-scale production to the utmost. Sheer competition, under free trade conditions, has forced the industry into larger and larger factories. But no 'start' could have retained for it its supremacy if it had not been under free trade conditions. These conditions, as they compel, preserve for it the lowest costs of production; and if it wanted to 'dump' systematically it could do so more successfully than any protected competitor.

But now we come to the third fallacy in the theory under notice. That theorem assumes that manufacturers can deliberately plan a system under which, after securing all their profits and their establishment costs by selling dear at home, they proceed to manufacture as nearly as possible gratis in order to sell cheaply abroad. This unprecedented form of philanthropy exists only in the imagination of the framers of tariffist theories. We have seen how a professed enterprise of that kind on the part of the American Steel Trust in 1903 was turned to derision by the course of events in 1904, though the promise was avowedly made with a view to keeping up employment for American workmen, even at a *loss* to the employers. When it came to the pinch, even the heavy hardship to the dismissed employees could not move the employers to go on with a deliberate policy of manufacture *for* dumping. Some manufacturers have been alleged to make goods expressly for 'reduction sales' of drapery in this country. But

in the terms of the case that is not dumping. It is manufacture for a profit.

The plain truth is that dumping is a matter of selling off abroad surplus stocks that cannot be sold at home. There have been times, indeed, when German steel and iron works were alleged to go on manufacturing though they could sell only at bare cost or less than cost, because the banks which financed them would rather bear that loss than face the stoppage of the works, which might have meant the loss of all the capital that had been advanced to them. But that, plainly, was not a fore-planned course. It was the anxious expedient of industries (protected industries, be it remembered) which were apprehensive of total ruin if they suspended work. British coal-mines and cotton factories, again, have sometimes been run for considerable periods in bad times at an actual loss, partly in order to save their workers from destitution, partly in order to avoid the possibly ruinous loss arising from total stoppage. But that is a very different thing from the tariffist fantasy we have been discussing.

When producers dump abroad, then, broadly speaking, it is simply to ' cut the loss ' they have incurred by over-production. They feel that it is a bad thing for themselves to dump at home, and therefore they dump abroad. In reality, by so doing they often enable a foreign industry which uses their material to undersell their own fellow-countrymen who also use it. This they can hardly

be supposed to desire. It was imports of cheap German steel that enabled the British tinplate industry to recuperate after the McKinley tariff of 1890 had cut off their exports to the United States. But the German exporters had no more reckoned on that than they had planned or hoped to 'kill' the British steel industry. They simply sold where they could because they had to.

Seeing that dumping thus always tends to (though it does not always in fact) injure the industry that is dumped against, and that producing industries everywhere are liable to be thus injured at one time by the competitors whom they injure at another, the remedy for the evil is plainly one of better organisation all round, with an eye to avoiding over-production. That is doubtless a difficult matter; but there is no other remedy. For nothing is more certain than the avowed failure of even high tariffs to prevent dumping in protected countries. To judge from their own legislative declarations, no countries have suffered more from dumping than Canada and the United States. It is thus so idle a thing to pretend that a tariff of 10 or even 20 per cent can prevent dumping in Britain that the profession of tariffists to desire only a 10 per cent tariff for that purpose is open to the most severe criticism. In point of fact, it is not dumping in the true sense, as defined by economists and legislators, that our tariffists desire to be protected from. They desire protection from *all* foreign competition; and when they

use the word they really mean by it only ' foreign competition,' pure and simple.

This was made even superfluously clear in a recent debate in the House of Commons, when a reference by one speaker to the technical definition of dumping, as having been implied in the Prime Minister's promise to investigate the subject, elicited from a tariffist speaker the protest that such a definition could not be accepted. Dumping, he said, did not mean selling goods in this country below the cost of production in the country of origin : it meant selling in this country below *our* cost of production. The rest of the debate went to show, what was well known long ago, that the ordinary tariffists meant by dumping the offering of goods in this country at any price lower than that which for the moment yields a satisfactory profit to the home producer. Thus the whole of the popular polemic about dumping is a simple political deception.

There should be noted, finally, the declaration by several American economists that it is practically impossible legally to *prove* dumping, in the strict sense, in a given case. The dumper, if he is a middleman, is making his own profit. If he is a producer, he can use the tariffist argument that he had secured his profits, interest on capital, and establishment charges, by his sales in his own country, and that the real cost of his production was only the extra labour and depreciation of machinery required to produce the surplus which

he is selling cheap abroad. Over this problem, anti-dumping laws, to say nothing of moderate tariffs, are impotent. Tariffs high enough to exclude the possibility of dumping will in effect exclude everything in the nature of competition; and that is the surest way to set up decay in industry in general, an evil incomparably greater than any that can be pretended to be caused by dumping.

To this objection the tariffist sometimes answers that, given protection, industries will be kept progressive by the natural pressure of home competition. As a matter of fact this is not true. Protected industries in our own and many other countries have in a multitude of cases been found to degenerate; and where they do not, it is at least as often through pressure of foreign competition as through that of the native producer. But let us assume that the tariffist's answer is true, and go on to ask: *How does home competition operate to keep an industry up to date?* and we shall get at the essential fact. It can operate only through the more efficient producers *selling cheaper* than the less efficient. There is no other way of forcing the latter forward, as regards productiveness, though legislation may compel employers to be progressive as regards the health conditions of their works.

We thus see, then, that the home competition which is said to be good and necessary *does the same thing* for the backward producer as foreign

competition does. It undersells him. It sells below *his* cost of production; and he is thus compelled either to go out of business or reform his methods, or his plant. The goods more cheaply produced by his home competitor are, in the sense which he himself has been giving to the word, 'dumped' upon the market. Against the home competitor he knows he has no remedy. If, then, we give him or his fellow producers the remedy they want against the foreign competitor, it is obvious that it will permit of their all shutting out as 'unfair' a competition which is simply more efficient. If the foreigner employs new machinery and better organisation, and thereby is able to produce more cheaply; or if the foreigner employs more taste and develops more skill in handling fabrics, and thereby attracts purchasers in our market at points where the home production is less attractive, his competition will be excluded all the same if the tariffist gets his way about what he loosely calls dumping.

Tariffists tacitly admit that this would be a false policy when they fall back on the plea that the foreigner competes unfairly by means of cheap labour. We have seen already the gross self-contradiction here involved. It is the tariffists themselves who have been telling us that where industry is protected by a tariff the workers are *better* paid. But those dumped goods about which they are complaining have been produced in tariffed countries. Then we get the new gambit:

it is *not* cheap labour, but the cheap production which becomes possible only under tariffs, that enables the foreigner to dump. The tariffist argument is thus a kind of three-card-trick. We have seen that both pretexts are false, absurd, and self-contradictory. A policy so advocated stands convicted of bad faith, and should be rejected.

CHAPTER X

KEY INDUSTRIES

A GREAT deal of discussion has taken place during and since the war on what are variously called 'key industries,' 'pivotal industries,' and 'essential industries.' Various lists have been drawn up, one of which will be found in the Report of the Committee of Inquiry presided over by Lord Balfour of Burleigh during the war. It runs :—

Synthetic dyes.
Spelter.
Tungsten.
Magnetos.
Optical and chemical glass.
Hosiery needles.
Thorium nitrate.
Limit and screw gauges.
Certain drugs.

If we analyse this list we find that most of the things are wanted mainly for military reasons, as being essential to the country when it is at war ; though some of them, such as synthetic dyes, are essential to our textile industries in peace, besides being connected with the chemical side of the production of munitions. Before the war that industry, and the production of optical and chemical glass, certain drugs, hosiery needles, etc., had been mainly concentrated in German or Austrian hands ; and we had much ado to manu-

facture for ourselves. As regards most of the things we succeeded, 'regardless of expense.' It is still very uncertain, however, how far our producers are capable of making certain dyes and drugs, chemical and optical glass, and so on, as cheaply as they may be produced by our sometime enemies; and on this score, as on so many others, it is argued by tariffists that we ought to protect those 'key' or 'essential' industries by a tariff.

Some time may be saved by waiving the question as to whether we really require, after the Treaty of Peace, to go on preparing vigilantly and expensively for the next war. If that is to be our policy all round, the plain probability is that before very long our financial troubles will be such that fiscal policy will have become a very secondary matter. By the Peace Treaty the Allies have beneficently relieved Germany of all military burdens worth considering. She is not to be allowed to spend on armaments beyond a very small sum. She will thus be enabled to concentrate all her labour power on production—if, that is, she is allowed to get the requisite raw materials. If she is not, the Allies will certainly get no indemnities beyond such raw material as they may have the sense to exact from her, and the bullion and other existing articles of value which they may compel her to hand over. In the lump, the latter values would not come to a hundredth part of the indemnity that has been specified.

Presumably, then, Germany will be allowed in

time to get her raw materials in the way of business, like other countries. If she then gets vigorously to work, freed from the burdens of a great army and navy, whatever indemnities she may be paying, she will at least have on foot an active industry, especially if, as her Government lately announced to be their intention, she adopts free trade. Should we, in the face of that industrial competition, continue to spend enormously on artillery, aeroplanes, ships of war, and fighting men, with or without conscription, we stand a fair chance of being worse off than the defeated enemy. Either the Allies will take the bulk of the proposed indemnities in the form of German manufactures, which will compete with their own, or they will go without it. And even then, German industry will be producing for the markets of the neutrals and her former Allies, and for the non-European markets, free from certain heavy national burdens which we shall be bearing.

The question, then, is one of common-sense policy, as to which the electorate must make up its mind. If it decides for the policy of armaments, it will be committed to keeping on foot all those military industries above enumerated, to say nothing of munition factories proper, a colossal fleet, and a large armed force, withdrawn from productive industry. It will also be committed to a system either of protective duties on food or of bounties to farmers such as were provided for by the Corn Production Act during the war. For, if

we are to treat as essential industries, to be maintained at home on the largest possible scale at any cost, all those industries which were vital to our existence during the last war, agriculture must be put at the head of the list. In that case, whether we resort to bounties or to tariffs, we shall either have dear bread and dear beef in addition to our other blessings of peace, or bread and beef at world prices with an immense annual dole 'to agriculture,' which will really mean 'to landlords'—unless indeed we nationalise land or economic rent.

As regards the other military industries in the above list, however, it may be well to point out that subsidies will be both a more economical and a more sensible way of keeping them on foot than a tariff. Field glasses for the army, for instance, can be produced in State factories. These will probably be costly, though this is not absolutely necessary. If they really were to produce economically as well as efficiently, the private producers of the same articles would complain if the State-produced articles competed with theirs in the general market. If, on the other hand, the private manufacturers can produce the goods as cheaply and efficiently as the foreigner does, there will be, in the terms of the case, no need for a tariff, and no need for State factories. Either way, it would be folly to put on a tariff. Either it will keep out foreign goods or it will not. If it does not, the result will be simply that the home producer, getting a higher price, will not be compelled to do his best. If it

does keep out the foreign goods altogether, we shall never know what is the best article. A simple subsidy to the State factory, in case we cannot produce as cheaply as the foreigner, will be the reasonable course, assuming that we are committed to permanent militarism as long as our State can keep going on that hopeless footing. If on the other hand we can produce as cheaply as the foreigner, there is no need for either subsidy or tariff.

When we come to the industries which connect with our great staple production, the case is still clearer. A State-aided concern for the making of dyes was established early in the war; and now that we are at peace, unless it is to be devoted as largely to munitions as it was during the war, it is more or less free to produce dyes for our manufacturers. It remains to be seen how its prices and its products will compare with those of similar concerns in America and on the Continent. But whatsoever may be the result, it is perfectly clear that there must be no tariff on dyes and colours and chemicals. As it is put by the Balfour Committee in their report, our cotton and woollen industries must have their dyes 'at bedrock prices.' It is that or nothing. If Germany can supply her own and other Continental manufacturers with either better or cheaper dyes than are supplied to ours, the latter will be fatally handicapped in their competition. Here we come to a fence that tariffism cannot jump. The cotton

trade, though it has full command of the great home trade, is emphatically an export trade. Put it at a disadvantage there, and one of our great staple industries is in mortal danger. It has difficulties enough to face without having its costs of production increased by a tariff.

Dyes, it is obvious, must be allowed to come in at the 'world price.' After all that has been said about our duty of not buying German goods, the fact obtrudes itself that our manufacturers will want to buy them—*must* buy them if they can get them—unless we can produce dyes as good and as cheap at home. The State subsidy, then, must be continued until it is ascertained whether or not the subsidised industry can stand on its own feet; and in the meantime it would be simply suicidal either to prohibit or to burden the importation of foreign dyes. If the chemical houses of Germany were bent on being hostile, they might conceivably take the course of keeping their dyes for themselves. Probably they will do nothing of the kind, being now more than ever concerned about the first function of the trader, which is, to make money. Were they to refuse, it would be doubly necessary to proceed with the State-subsidised production. But whether or not we decide permanently to run the State-aided works even at a loss, in the meantime the product of all rival countries must have entry in order that our textile makers shall know where they stand as to foreign competition. The buyers of our cottons in India and the East will

take that which best pleases them, or is lowest priced ; and where prices are equal they will choose the more attractive. Dyes, then, we must have, on the best possible terms.

It now begins to be clear, further, that tariffs upon any other articles essential to cheap production of textiles are inadmissible, for the kind of reason just given. The cotton industry uses not only dyes but colours, size, bleaching chemicals, machinery, leather belting, lubricants. Let the costs of these mount much, and prices must mount too. Thus the whole problem, alike of key industries and of industries in general, falls into one focus. Wherever an industry manufactures for both the home and the foreign market, it cannot be protected for the home market, in common with others, save at the cost of crippling it for export trade. This crux the tariffist propaganda absolutely ignores ; and the appeal on behalf of key industries is simply a section of that propaganda that seeks to trade specially on patriotic sentiment.

This fact was brought out as clearly as the real feeling of tariffists in regard to dumping, in the recent House of Commons debate (24 June, 1919) already referred to. It was there declared in express terms that just as the tariffist regards all foreign competition as dumping, so he regards all home industries as key industries. "What we mean by key industries," declared one prominent tariffist member, "is *all industries—any industry*

which needs protection. I do not apologise for having been a protectionist. I have always advocated a tariff as a means of protection. I do so to-day." The significance of this avowal is not altered by the fact that the same member, a few moments later, predicted that "our markets and our country will be exposed to American competition, not only in general produce in a wider sense, but there will *also* be competition against our key industries." These self-contradictions are customary in tariffist propaganda; and the fact remains that the representative tariffist in question honestly regards as key industries all industries requiring (that is, seeking) protection. It was the same speaker who insisted that dumping must be held to mean the selling of goods in this country under *our* cost of production.

That he did not stand alone as to the tariffist interpretation of either phrase was soon put beyond doubt by another speaker in the same debate, who went even further. "In my opinion, and, I think, in the opinion of any sane member of the British Empire," declared the second hon. member, "*any industry which employs labour is of very necessity a key industry in this country.* So far as the word 'dumping' is concerned, if manufactured goods come into this country to be sold at less than the price at which they can be manufactured in this country, that is dumping, and they should be taxed and dealt with accordingly." It would appear, then, that the general propaganda in favour of the

prevention of dumping and the protection of key industries by means of a tariff has been a process of deception so far as the effect on the general public is concerned, though doubtless the politicians who have carried it on were quite unconscious of the mystification they were setting up, having never had any clear idea about the terms they used.

But it is by such tactics as these that opinion has during the war and since the war been manipulated in favour of a resort to a system of tariffs for Britain. As we have seen, not one of the arguments used will bear examination. They either confute themselves or contradict each other. Minds which had remained firm in defence of free trade during a political conflict of ten years have been unbalanced by appeals to natural feeling against the great enemy; and are inclined to a change of policy by way of continuing after the war the severance of commercial intercourse. But the Treaty of Peace has put out of the question any special discrimination against German trade on the part of the Allies; and if there is to be a tariff it must be an all-round one. Such a tariff has been practically prepared for by the measures of Imperial Preference introduced in the Budget: they presuppose an extension of protective tariffs. And as a matter of fact our trade has for the time being much more active competition to expect from the United States in Europe and from Japan in the East than from Germany. This has been

made clear by the Report of the Balfour Committee as well as by the news of American trade enterprise in Europe since the armistice.

The appeal to anti-German feeling, then, is as deceptive as the appeals to prevent dumping and to protect 'key industries.' All the three menaces thus traded upon are illusory. Against German goods which they do not need, the people of Britain can protect themselves in the simplest way by not buying them. Meantime the gravest of all dangers, the danger of our losing the key position of our industrial and financial strength, comes ever nearer to an unprepared electorate. The destinies of Britain are in the balance.

CHAPTER XI

THE HOME MARKET

IT remains to consider comprehensively, with special regard to the problem of fiscal policy, the interests of the nation as a whole, which are so little regarded by tariffist propaganda in any country.

In some countries, indeed, the need for creating variety of occupation, and so at once promoting the civilisation and increasing the means of subsistence of the people, has been made a main ground of protectionist policy. And for this, in the case of a 'new' country, there is something to be said. Long ago, the poet Spenser pointed to the exclusively pastoral life of the people of Ireland in his day as a drawback to their moral and mental culture: a population, he saw, needed trades and arts and handicrafts to raise the level of its intelligence and culture. Well would it have been, indeed, both for England and Ireland, had the poet's precept been followed by the dominant country when, in a later age, part of the people of Ireland spontaneously turned to commerce and manufactures like the men of other nations. When they sought thus to become industrial, the blind com-

mercial jealousy of English traders employed against them the legislative power, and for more than a century their industries were stifled. At such a policy, Spenser would have been horrified.

In the early stages of such communities as the United States and Australia, electorates readily take measures to establish an artisan population, objecting to remain wholly pastoral and agricultural peoples. But long after protective tariffs have been established, rightly or wrongly, with such motives, it can be seen that the non-protected population is being victimised in perpetuity to aggrandise the rest. At first they may have willingly made sacrifices to widen the bounds of their national life. But long after that purpose has been achieved they find themselves more heavily taxed than ever to support classes that ought to be self-supporting ; and the arrangement is plainly not an honest one.

Professor Marshall has told how in 1875 he went to America to study the effect of protective duties there, being much impressed by the arguments of Carey and others on the subject. " I came back," he writes, " convinced that a protective policy in fact was a very different thing from a protective policy as painted by sanguine economists, such as Carey and his followers, who assumed that all other people would be as upright as they knew themselves to be. I found that, however simple the plan on which a protective policy started, it was drawn on irresistibly to become intricate ; and *to*

lend its chief aid to those industries which were already strong enough to do without it. In becoming intricate it became corrupt and tended to corrupt general politics. On the whole, I thought that the moral harm far outweighed any small net benefit which it might be capable of conferring on American industry in the stage in which it was then. Subsequent observation of the course of politics in America and elsewhere has strengthened this conviction."

Even apart from corruption, the system as a whole is unjust. A generation ago Henry George pointed out that in the United States only one person in twenty-seven could possibly benefit in any way from the tariff. Farmers could not be protected, save as regards their wool, since the States imported no cereals. Neither could farm hands, cattle-breeders, miners, railwaymen, dairymen, lumbermen, growers of cotton and tobacco, market-gardeners, carpenters, masons, bricklayers, house-painters, drivers of transport, domestic servants, civil servants, professional men, teachers, artists, shopkeepers, clerks, compositors, pensioners and the mass of elderly people living on their savings. The traders who could be protected by tariffs formed but a small minority of the total population.

Thus the phrase, 'protect the home market,' is one of the hundred deceptions of protectionist special pleading. It should run: 'protect the trades which want a monopoly in the home

market against foreign competition.' The home market, rationally defined, consists of the aggregate of consumers, of whom the protected producers are a small fraction. And among these protected producers, the lion's share goes not to labour but to the capitalist. Long ago an American humorist summed up that the tariff had created a millionaire in every village. This was of course an over estimate. Village life in the States was kept pinched because everybody had to pay artificially high prices for all manufactures. But in the towns the millionaires multiplied; and latterly the 'tramp' population of the States has been estimated at from one to two millions. Millionaires and tramps, both unknown a century ago, have been prominent features of tariffed American life.

The American people, certainly, would never have tolerated as our forefathers did the frightful suffering so long inflicted by the British Corn Laws; but in modern times they have been as flagrantly plundered by their peace-profiteers as any population in Europe. What happened after the imposition of the McKinley Tariff in 1891 to the American canning industry may serve as an illustration. That tariff included heavy duties on imported tin-plates, in the interest of the home industry; and, after an immense preliminary importation between the passing of the Act and the date of its operation, the export of British tin-plates to the States virtually ceased. In that preliminary year alone, the American users of cans

had to pay over 6,000,000 dollars extra for their cans, all of which went into the pockets of the tin-plate trade, and none to the State. The American price thus rose enormously, with the result that all over the States millions of dollars' worth of food produce—in particular fruit and vegetables—had to be allowed to rot because the enhanced price of the cans for preserving it destroyed the possibility of profit for the canners. A heavy blow was thus struck at one of the great national industries —employing 2,000,000 people as against 16,000 employed in the tin-plate trade—upon the plea of 'securing the home market' for a small one.

When the American export trade in canned provisions was thus struck down, the overthrown tin-plate trade in Wales bethought itself of finding new markets. In Central and South America, in New Zealand, Tasmania, Australia, and elsewhere, there were provisions which could be canned in the American fashion; and to the producers of these provisions the British tin-plate makers offered tin for cans at much lower rates than were being charged for it in the States under the McKinley tariff. In 1892, accordingly, the duty had to be cut down by one-half; but it was too late. The result of the first blow was the development of a group of great rival canning industries in other parts of the world, which forced alike tin-plate makers and canners in the United States to cut down their prices heavily in order to have any export trade at all. That the world in the end thus

gained was no ground for thanks to the American tariffists who plundered and injured their own provision industry in order to enrich their tin-plate makers. In the case put, a tariff could have done nothing for the British tin-plate makers. They retrieved themselves by their own enterprise; and in 1908 there were 440 tin-plate and steel-sheet works going, as against 322 in 1898.

In America, on the other hand, hundreds of men had been made bankrupt by the initial blow which wasted immense values in provisions. Here the question arises whether the British people would have submitted to what their kinsfolk tolerated in the Republic. There, it would seem, the wide practicability of 'graft' prevents any such fierceness of resentment as might conceivably be felt by Britons (this is a monition as regards the future) if they found themselves ruined by the fiscal operations of tariffists. However that may be, the number of men who have been ruined by tariffs in the States must be great. The years 1893 and 1896 showed the largest number of business failures hitherto recorded in the history of that country.

In our own country, as we have seen, there is absolutely no case, on a historical survey, for a reversal of free trade policy. Whatever have been our latter-day social troubles, they have been incomparably less heavy than those of the age of protection; and the lot of our people has been progressively better than that of any other

industrial population in Europe. Nor is it the mass of the workers, even in the trades for which protection is being asked by sections of employers, who call for a tariff. All the more intelligent artisans in the large industries know that they have nothing to gain by it. If, by means of protective duties, the relatively small quantities of cottons and woollens that come into this country were kept out, the result would be an increase not only in the price of the home-made goods that compete with these but in the price of cotton and woollen goods in general. The public, then, would not buy *more* cottons and woollens, and labour would gain nothing. Some scores or hundreds of manufacturers would make large profits; and many thousands of poor people would be pinched: that would be all.

The great majority of the town workers would not get even the shadow of protection. Railwaymen and coalminers could have none—unless the shortage of coal output brings us to the point of desiring to import coal from America. The shipbuilding industry could get nothing from protection: it would only incur unemployment from import duties on steel and iron. Save for the possibility of protecting agriculture by import duties on corn and meat and dairy produce and vegetables, the mass of our population is no more 'protectable' than that of the States. It is claimed, indeed, that new industries, giving new employment, could be set up under a tariff; but

it is hardly necessary to point out that such employment would be a mere trifle in comparison with the new employment that was constantly arising under free trade before the war. The one industry of film-pictures, unprotected and unprotectable, has in ten years' time made employment for many thousands.

And why, let us ask, should we tax the nation in the mass to set up a few new industries which, by the very nature of the case, must mean a less advantageous employment of labour and capital than that which actually goes on ? Such employment means *national loss ;* and where is it to end ? Are we to follow the lead of the politicians who would tax all goods that foreigners can produce more cheaply than we ? At that rate we shall end in growing not only our own beetroot but our own oranges and our own tobacco. We are sometimes told that because Germans are willing (or were, while they had a tariff) to pay a higher price than our traders could afford for the limited supply of palm kernels exported from our West African territory, we ought to maintain an export duty on all kernels sold outside the Empire. Such a duty was actually proposed during the war, with the prospect of closing the Dutch market to our West African subjects, thus lowering the price against them, and so arousing ' sedition ' where there was no sedition before.

To maintain such a duty, at such a political cost, would be as bad colonial policy as it is bad

national finance. The proper course for a Government intelligently concerned about 'developing the resources of the Empire' would be to take measures to increase indefinitely the production of palm kernels in West Africa, and to multiply tropical produce wherever possible. The productivity of Africa is immeasurable; and to develop that would be an incomparably worthier occupation for a British Government than to set about monopolising one line of African produce, to the loss and exasperation of our native subjects, in the supposed interests of a new British industry.

It is infinitely more important, as well as more profitable, to secure the best life conditions for the inhabitants of the Empire both at home and abroad. Every measure that artificially raises prices, unless it be with the direct aim, and result, of improving life conditions, is really a worsening of life conditions. After many years of under payment of our school teachers, we passed during the war an Act which among other things was to secure for them better salaries. But a continuous rise in the cost of living is already beginning to undo the improvement; and there faces us, not only here but in regard to wages in general, the prospect of a fatal circle of economic movement, in which an unwise fiscal policy raises prices, with the effect of eliciting a general demand for raised wages and salaries, which again will lead, unless the plain lesson be learned, to further evil devices to raise prices higher still.

Thus, upon the pretext of preserving the home market, the home market will be made steadily worse for all concerned, while the foreign market, in which during half a century the nation collectively gained wealth and credit attained by no other in Europe, will be progressively lost likewise. The mere possibility of such a sequel to the winning of the World War is enough to justify the most earnest appeal to the nation to take heed to its course. On the other hand, as we shall see when we study the problem of ' export of capital,' free trade conditions are demonstrably the best for attracting to our country the foreign capital of which it stands in need.

CHAPTER XII

THE EXPORT OF CAPITAL

IN the years of discussion on tariffs before the war, as before noted, much use was made on the protectionist side of the argument that free trade resulted in a large 'export of capital' to foreign countries, thereby depriving home industries of capital either useful or necessary to them for their upkeep and expansion. No argument so variously fallacious, perhaps, was ever employed in the advocacy of protection; and it is doubtful whether it will be again resorted to in this country. During the war, our 'exported' capital was one of the main factors that stood between us and ruin. In the United States in particular, the owning of American and other foreign securities by British investors made possible our immense financial transactions at the stage before the States entered the war. But even if there had been no war, the argument we are considering stood convicted at once of economic fallacy and of extreme inconsistency.

Let us first consider the circumstances under which capital ever is or can be exported. Obviously this takes place when a foreign loan is floated in

any country. How is the loan made ? Once, in the House of Commons, a member of Parliament of literary distinction was asked how he supposed a loan by investors in this country to a South American Government was effected. "By the transmission of credit paper," was his prompt answer. It had to be pointed out to him (1) that the South American Government was not borrowing scraps of paper ; (2) that it wanted large funds ; and (3) that these funds were to be expended in a certain way. So far as British lenders were concerned, then, the loan must go out either in bullion or in actual goods which were worth bullion to the South American people.

Now, the exact form in which a public loan is made from this country will be determined at the moment by all the special circumstances, financial and commercial. If it will be profitable at the time for British exporters to send, and for the importers in the borrowing country to buy, any form of British produce required in that country, the transaction will in part take that form. It might, again, take the form of the sending of foreign or colonial produce which was in store here for re-export. If, however, the purpose of the loan, as often happens, is the construction of a new State railway in the borrowing country, the bulk of the loan will be likely to go, so far as we are concerned, in the shape of rails, locomotives and rolling stock. Some might even go in gold, if the borrowing Government is improving its currency : we are

latterly great dealers in gold as a commodity, the produce of the South African mines. But a loan of, say, fifty millions will never go wholly in gold. It will go mainly in British produce, mostly manufactures. The making of these goods will not only employ labour here but will secure a profit to the capital employed in making them ; and that profit will in ordinary course provide for the upkeep and, if necessary, the extension of the plant of that industry.

Thus, broadly speaking, there cannot be export of capital *without* giving employment and profit to British labour and capital. Beyond the small movements of bullion, which, as we have seen, regularly go on in time of peace to balance the money exchanges between different States, capital simply *cannot be exported save in the form of commodities. If* the borrowing State were simply to receive a British cheque for £50,000,000 from the Bank of England, or Bank notes to that amount (which is *not* the way in which things are done), it would have to proceed to buy with that paper the special goods it required, and also further goods, the sale of which in its own or neighbouring countries would bring in the spare money it needed.

Does this procedure, then, take away saved credits which are needed for the expansion of British industry ? The question must be held to apply to *profitable* expansion ; and in that sense it elicits the answer that nothing of the kind happens. It is true that British producers or

traders may sometimes be unable to borrow in the market or from a bank when they wish to do so; but the same thing may happen to a foreign Government that wants to borrow. It is all a question of whether the proposed investment is *believed to be sound*. Great men of business testify that no really sound undertaking, which can show to competent observers a good prospect of profit, has ever, in peace time, failed to secure the capital it needs. In point of fact, much money was annually lost in pre-war days by being invested in home undertakings which turned out unsound. It was repeatedly estimated that in a given year those losses had amounted to £100,000,000 sterling.

After such an experience, naturally, 'bitten' investors will be chary of speculations at home, and may prefer to try speculations abroad. In that case also, however, they will often lose; and the problem of investment at home or abroad is simply a matter of choice among risks and attractions. There was nothing new in our day about investing money in foreign undertakings at a high rate of interest. The Duke of Wellington in his day warned his countrymen that high interest meant high risk; and that discovery was made long before the Duke of Wellington. But in modern times comparatively high interest has been obtainable in foreign investments to a much larger extent than formerly; and this largely because British and American and European management and enterprise, as in the Argentine Republic, has

been largely developing the resources of new countries. Does *that* attraction, then, tend to leave British industries destitute of the capital they need to maintain and expand them; or has it prevented the establishment in Britain of new industries *which would have yielded a fair profit to capital?*

It may be confidently answered that, apart from the complaints of 'new' men who cannot get the capital they want to run a scheme or an invention, there is no evidence whatever that industry has ever in this country, under peace conditions, been held up or hampered by lack of the loanable capital which was being invested abroad. It is perfectly possible that a competent man, who has not previously been able to show what he could do, may for a time fail to get the capital he needs to develop a sound enterprise that he has planned. *But that can and does happen in exactly the same way in tariffed countries.* Even in the United States, where money is speculated with more freely than here by reason of the greater possibilities open to enterprise, nothing is more common than the story of the inventor who has to give up his invention for a small payment or pittance in order to have it worked.

On the other hand, a little reflection will show that in peace time a large quantity of British gains *had* to be invested abroad if they were to be profitably invested at all. As we have seen, hundreds of millions were lost in home under-

takings which failed to find the required market for their production, whatever it was. The reason is that at any one moment there is a limit, very slightly elastic, to the amount of production that can profitably go on in any one country. If, then, the amount of capital required in any one year in any one country for the undertakings that *can* yield a profit is £100,000,000 ; and if the aggregate trade profits and savings of that country in that year is £200,000,000, half of the aggregate must be invested abroad if it is not to be either lost or merely hoarded. Now, in a country that is predominantly industrial and maritime, as our country is, that will be in peace the normal state of affairs, however the amount in incomings and outgoings may vary. Under normal peace conditions, we simply *could not* turn to purposes of home production and profitable export the excess of earnings over outgoings.

Let us put the matter in a broadly simple way. Let us suppose that our export of coal and other raw material serves only to balance our imports of food. Then our manufactures will earn, roughly speaking, twice as much value in raw material as was put into them. Suppose, for instance, that the exports of the cotton trade are valued at £100,000,000 and embody £50,000,000 worth of raw material. If for the £100,000,000 worth of goods there is imported £100,000,000 worth of raw cotton (supposing it to be procurable), it will require an export of £200,000,000 worth of cotton

manufactures to use up that raw import. No man of business will suppose for a moment that this immense increase of export could find a paying market. If, however, we imagine the transaction to be possible, the consequence next to be considered will be that an export of £400,000,000 of cotton manufactures will be required to use up the imported £200,000,000 of raw; and so on *ad infinitum*.

It is plain, then, that the tariffist demand that our imports should take *solely* the form of completely raw material is mere folly. As a matter of fact, as we have seen, the great bulk of it is either wholly or mainly or partly raw material, in the sense in which leather is raw material for the boot manufacturer, and steel for the tin-plate maker and shipbuilder. But unless we are to forgo part of our profits, or of the payments earned by our ships for freightage (where there is *no* export to represent the work done), or of the interest on British investments abroad, we must take part of the national incomings in the form of foods and finished goods.

One could imagine, indeed, an ideal State which would annually perform just the amount of labour needed to feed and clothe its population comfortably, sending to foreign countries just the amount of its own produce required to pay for what of their produce its people decided to consume. In the case of such a State there would be no national debt, no regulation of the money exchanges, no

stocks and shares to buy and sell. But if in such a State there occurred in any year a bad shortage of the produce upon which it mainly relied, or if in other countries a new taste had cut down the demand for its principal export, the population of the ideal State might find itself in a very unideal condition. Howsoever that might be, actual States must plan their fiscal systems in relation to the industrial, commercial, and financial conditions which actually subsist. These include national debts, stocks and shares, payment of interest and lending of capital. It is these factors that we must take into account.

Sometimes a tariffist, striving to get out of the rut of the ordinary formulas of his school, argues that all importation of foreign goods in mere payment of interest on our investments is a wrong to Labour, since it must take employment out of the hands of labour, and bread out of its mouth. That might be supposed to be the argument of a Socialist, howbeit a shortsighted one. But it was actually used in the hearing of the present writer by an advocate of tariffs who drew a large income from investments. Perhaps they were wholly British investments ; but this is far from certain ; for while the discussion on export of capital was proceeding nine or ten years ago there were published, without challenge, lists of names of leading 'tariff reformers,' M.P.'s and others, who were actually directors of financial and commercial companies directly occupied in getting

British capital invested abroad. But the essential point to be realised is that *no* importation of foreign goods, on a balance, takes away employment, save in the sense that the working hours of labour may be beneficially reduced, with no fall in wages.

Let us consider the forms which the importation of foreign goods, representing payments of interest on British investments, mainly takes. One of the forms is tropical produce. There arrives, say, a shipload of bananas. For the working of the ship, seamen earn wages—latterly, much better wages than formerly. For the unloading, the warehousing, the bookkeeping, the transport, the delivery to the final consumer, labour is employed at every step. And so with every other article, whether it be foreign-made lace, or fine French woollens, or steel bars. In the last-named case, there is set to work a higher grade of labour to turn the steel to its uses than would have been employed in making pig-iron out of the ore, or steel out of the pig-iron. If a smaller number of men are directly employed through the transference from lower to higher grade labour, the outcome is new employment for forms of labour ministering to the better-paid labour. Upon the increase in national wealth, there follow new and better modes of transit, new means of recreation, new services. Where, in a word, is there more work to be done for wages than in a progressive industrial State; and where has labour a greater variety of forms?

For its own part, Labour so called is latterly less concerned to demand work than to insist upon doing less work for a given payment—to have, in a word, shorter working hours. And this advantage it has gone on obtaining in this country during the free-trade period at a rate that was never before seen in the world's history. As a matter of fact working hours were never reduced during the ages of protectionism; and in the first half of the nineteenth century Mill could write that it was very doubtful whether all the inventions made in machinery had lightened the day's toil of a single human being. To-day we can answer that they certainly have; and that it must be mainly due to free trade that working hours are shorter in Britain than in any other industrial country. And this is a gain of the most important kind, for it means better life. The nation that can live at a given civilised standard of comfort for least expenditure in bodily toil is the best-off nation, in the best sense.

From the tariffist point of view, it might be supposed that the true object of fiscal and industrial policy is not to increase well-being but to multiply toil. Let it be clearly understood that the aim and ideal of free-trade policy is not to multiply toil but to increase proportionally the fruits of toil. If to-day manna were to fall from heaven, tariffism would be committed in principle to putting a tax upon it in the interests of whatever form of food production was supposed to have

been 'dumped upon.' Something very like that is actually seen from time to time in tariff policy. In the United States, they used to tell a story of a deputation of orange-growers who went to President McKinley (or another) to ask for an import duty on bananas. "But we don't grow bananas," replied the President, "how can we give protection on them?" "It is like this," was the reply, "we grow oranges, and we feel that when a man is full of bananas, he has no room left for oranges." The thesis is a very consistent development of tariffist principles.

In our own fiscal politics, however, we find perfectly serious reasoning which is at bottom more absurd than that ascribed to the American orange-men in the story. In the pamphlet entitled "The Real Case for Tariff Reform," published in 1910 with a preface by Mr. Austen Chamberlain, it is argued, for instance, that because in 1881 the 1,430,785 persons employed in our textile industries constituted 410 per 10,000 of the population, while in 1901 the 1,462,001 persons employed in the same industries constituted only 353 per 10,000 of the population, there was "a loss of 57 per 10,000 of the population," by which it appears to be meant that 57 per 10,000 of the population had lost work, or that work which might have employed them had been 'lost.' In the same fashion, the pamphlet argues that if in any industry whatever the percentage of the whole population employed does not go on increasing,

there has been 'loss.' The student who will master this proposition and realises its folly will have gained a useful insight into the nature of tariffist delusion.

In the case cited, the amount of manufactures produced by 1,462,000 persons in 1901 was *very much greater proportionally* than that produced by 1,430,000 persons in 1881; so that every hand employed in 1901 produced much more of exchangeable value than had been produced per hand in 1881, though wages had risen and working hours had not increased. Thus the nation was getting very much more output from nearly the same number of textile workers (an increase of only 2·2 per cent). This has come about mainly by improvements in machinery; and if further improvements in machinery should double the power of production per head, so that positively fewer people should produce much more cloth, the fact would be proclaimed, upon tariffist principles, to be a 'loss.' Tariffism, in short, is logically committed to the *prevention of all improvement* in machinery. By that plan (since the tariffist cannot hope to banish machinery altogether) we should ensure that any increase in output will always mean an exactly proportionate increase in the number of hands employed.

A little reflection will show that social progress largely consists in this proportional reduction of the amount of personal labour needed for a given output of commodities. If we could so work our

coal mines that fewer hands, working not longer but shorter hours, and with fewer accidents, should extract more coal, we should have nationally gained. For the hands that were no longer needed for the toilsome and dangerous work of mining would be available for less toilsome and less dangerous work above ground. What an enlightened citizen would desire to see is not an increasing or undiminished proportion of labour required for monotonous toil, but a less proportion, with an increased output of necessities, and an increased proportion of persons doing other kinds of social service—teachers, artists, entertainers, dentists, scientific researchers. He would want to see fewer married women obliged to work outside of their own homes, many more pupils in the higher schools, and many more students at the universities.

Concerning export of capital, finally, we have to note that, after all the outcry on the subject in this country, an exactly similar outcry was found to be going on in France and Germany, under their tariffs! Demands were made in both countries for the *prevention* of the export of capital, which was said to be going on to the detriment of native industry. And in reality some export of French and German capital was going on, whether by public loan or private transaction. One of the ways in which capital is invested abroad is the leaving at interest of the proceeds of the sale of goods exported in the ordinary way of business.

If it can be invested there to better advantage than it could be employed at home, it will be so invested. That, of course, means that sooner or later the return on the investment will come in the shape of goods, to the annoyance of the tariffist—unless, indeed, the inventor himself emigrates, thus taking his capital with him.

That contingency, in turn, is sometimes declared by tariffists to be the natural outcome of the free-trade system. Once more, the allegation turns out to be false in fact, as it is absurd in theory. Apart from preferences for a given climate and society, an owner of capital invested abroad will be either more or less likely to follow his capital according as difficulties are or are not put in the way of his getting the fruits of it. Since the war, the heavy taxation of incomes in belligerent countries may thus tend to cause movement of persons whose capital is or can be invested in lightly taxed countries. But under peace conditions, not only was Britain a very comfortable place for owners of capital to live in: it was the country that offered least resistance to the entrance, as imports, of the interest on foreign investments.

In a tariffed country, on the other hand, the duties on imports put a special difficulty in the way of the return of interest on investments. As we have seen, it cannot all come in raw materials: if other things are blocked, the natural course is for the tariffed exporter to leave *his* profits invested abroad, though he has smaller profits to invest.

Thus, though the profit to be made in exploiting the potential wealth of a ' new ' country, or one of great natural resources like the United States, will always, or generally, attract capital thither, the free-trade country is actually the one which, other things being equal, offers most inducement to the foreigner. This is not merely true in theory : it is a matter of actual historical experience.

Mr. Bonar Law once stated in the House of Commons, in the hearing of the present writer, at the period when export of capital was being debated among politicians, that one of the aims of tariff reform policy was to induce foreign capital to come to this country. At that very time, as it happened, so much foreign capital was actually being invested in this country that some of the right hon. gentleman's tariffist followers were pointing to the fact as constituting an undesirable state of things ! It is quite true that some British capital has gone for industrial investment abroad. It is also true that much German capital was invested in Russia in the years before the war, because the high Russian tariff made it more profitable for the German manufacturer to go there and set up his own factory than to export his manufactures. In this way the German manufacturer in Russia competed against the German manufacturer in Germany. It will probably not be argued, however, even by our tariffists, that this was a very good policy for Russia. In any case, it took a very high tariff to do it ; and the result was

that German and other foreign capitalists were enriched by the high profits which the Russian tariff enabled them to extort from the Russian consumer; while the German tariff, on the other hand, was utterly impotent to prevent the 'export of capital' from Germany, and the bestowal of employment upon Russian instead of German workmen.

In Britain, on the other hand, as against the export of British capital (in the form of British goods) to Russia, to set up British-managed factories there, or to Canada or the Argentine to promote the development of those countries, there was an abundant investment of American capital in the establishment of great factories here. As long ago as 1900, the Director of the American Census estimated that more than 40,000,000 dollars (£8,000,000) of American money was "invested in European plants devoted to the manufacture of various American specialties, including all descriptions of electric apparatus, sewing machines, belting radiators, shoe machinery, coal-carrying apparatus, steel chains, machine tools, hoisting machinery, printing machinery, elevators, watchmaking machinery, pneumatic tools, and photographic apparatus."

Among these establishments were the factory of the American General Electric Company at Rugby; that of the Westinghouse Company at Trafford Park, employing between 2000 and 3000 men; the works of the Singer Sewing Machine Company at Glasgow; that of the American Tool Company at

Fraserburgh: that of the Hoe Company for making printing presses and linotype machinery in London; the factory of the American Draper Company in Lancashire for the manufacture of fast-running Northrup looms; and that of a great American company for the production of mining machinery near London. Such is the persistent inconsistency of tariffist propaganda that while its leaders were declaring the attraction of foreign capital to be desirable, and ignoring how much was thus actually attracted, other tariffists spoke of the erection of these American establishments as a proof of the impoverishing effect of free trade. Export of capital was a bad thing; but import of capital was worse!

Incidentally, the establishment of these great American concerns in Britain disposes of the tariffist theory that the command of a secured home market enables the protected manufacturer to produce at such a low cost that he can send his products at under-cutting rates into a free-trade country. Why did those concerns come here, if that theory be true? Why were not the Singer sewing-machines sent over, instead of being manufactured for the whole European market in Scotland? Simply because, firstly, they could be manufactured more cheaply here than in the States; and secondly, because the produce of a free-trade country obtained the most favoured-nation treatment in European markets where that of the United States would not.

One way and the other, the fact that American capital was being largely invested in industrial undertakings in the free-trade country was proved for every one who was honest enough to face the statistical facts. One more protectionist bubble had burst. This one, so far, has not been blown again at the present juncture. It is none the less important to realise that the facts as to export and import of capital are all in favour of adherence to the policy of free imports. The trouble now is that the conditions of production in Britain are such as to attract neither British nor American capital to production. *Those conditions are virtually protectionist conditions.* At the time at which this chapter is written we have artificial restraints upon imports for protectionist reasons; and import duties which were imposed as a war measure are retained for protective purposes. Thus all costs of production are high; export trade is poor; and hosts of men returned from the war are still unemployed. As a result of the war, in fact, we are living under conditions analogous to those which a regular tariff policy would set up. That is precisely our misfortune and our peril.

CHAPTER XIII

THE LESSONS OF THE WAR

IN the last and in several previous chapters we have been considering several real lessons of the war, as contrasted with the one lesson professedly extracted from it by our tariffists. Some time ago they made play with two cries: 'Keep out German goods,' and 'Give a preference on Empire goods.' Now that the Peace Treaty is signed, the first becomes: 'Keep out German *and* other foreign goods'; and Imperial Preference has fully revealed itself as a mere expedient to carry out the principle of protection for home manufactures against foreign. Thus, on the tariffist side, no lesson whatever has been learned from the war: not the vital lesson that a debtor country must increase its exports, and to do that to advantage must keep its costs of production low; not the lesson of the superiority of free-trade finance; not the lesson of the power of free trade to maintain the greatest mercantile marine, and on the basis of that the greatest navy; not the lesson of the demoralisation of Germany by the ideal of obtaining markets by force; nor the lesson that profiteering makes traders unpopular and causes angry

discontent; nor, above all, the supreme moral lesson that blind selfishness is really not the way even to material success in a civilised world, to say nothing of its being a sure way to paralyse the political intelligence of a people.

When we survey broadly the whole history of protectionist policy, we realise that it is a play of one principle, the exaction of gain from the many by the few. First we have customs duties extorted by chiefs, kings, barons, and States as a means of revenue, which may or may not be, but generally is not, devoted by the receivers to any public purpose. Later, when Governments are more and more obliged to turn their revenues to public account, the manipulation of customs duties becomes more and more a matter of the 'pull' of particular interests. Where an interest can persuade a number of ignorant people that the competition of the foreigner is an injury to them in general, the protection of 'home industry' becomes a ruling shibboleth, when in actual fact fifty people at home are burdened for every one who is benefited. The sheer blind selfishness of all the interests concerned is abundantly revealed by their efforts to injure each other. Woollen tried harder in England to kill cotton than to hurt the foreigner. In old Flanders, as in England, town workmen sought to suppress the industrial competition of villages; and when Holland became a trading country her cities fought the Hansa for trade monopolies. Even in the republican period they jealously plotted

against each other's prosperity. What men in groups could never see, blinded as they were by self-interest, was that the prosperity of one was not an injury to the others if it were obtained by real work. In the period of colonial conquests, the Dutch, as we saw, were as jealous monopolists as any, refusing to apply in their foreign commerce the principles of free trade which had been forced upon them at home by their peculiar position and circumstances.

In England, all through the seventeenth and eighteenth centuries, import duties and prohibitions represented simply the preponderance of political influence for the time being. The parliamentary union of England and Scotland was dangerously delayed till 1707 by the refusal of English traders to let Scottish trade have free entrance; and the still unsolved Irish problem was built up by the iniquitous treatment of Irish trade at English hands. The very quarrel by which Britain lost her American colonies arose out of her trade policy towards them. Always there were free traders who saw the truth: always there was a clamorous crowd of self-seekers who refused to learn it. The final triumph of free trade policy, as we saw, came about because one interest only was for the time being seeking protection; and the evil wrought by its privileges had become intolerable.

One of the most familiar and, for some, one of the most plausible pleas for a policy of tariffs is

that most nations have adopted it. Why, we are asked, have so many enlightened countries established tariffs if they do not find that they gain by them? The complete answer is that in every country tariffs have been set up or maintained by organised combinations of interests which either bewilder or overbear those whom they are going to plunder. That is the great danger before us. People are so easily confused; and so few are prepared to take the trouble needed to understand economic questions; while the great interests which have money at stake are indefatigable in spreading false information and catchpenny appeals. In the United States, a political campaign to raise or maintain a tariff means an immense expenditure by a multitude of enriched manufacturers. Among ourselves, the systematic expenditure to promote tariffist opinion has been proportionally as great. It represents, in fact, expenditure directed to future gain for the subscribers. On the other side, the whole organisation is financially disinterested: representing, as it does, zeal for an ideal and a principle, it can never command half the money that is available for 'graft.'

Other considerations operate, of course. Claptrap about 'cheap European labour' avails with working men in the States and in Australia. In Germany, as we saw, Bismarck could appeal to the need for a new revenue for military purposes as well as to the selfish interests of landlords on one

part and manufacturers on another. But in the main and in the long run it is the organised collaboration of 'grafters' that keeps tariffs going, because counter-organisation is so enormously difficult. An actual majority of German electors voted against food duties before the war; but the representative system made it impossible for them to carry their point. It was, however, in large part the fear of the growing combination against their tariff policy that fed the zeal of the German Junker party for a war. By that means they hoped to become so strong that the democracy could never prevail against them. There, tariffism and militarism went hand in hand.

In France, again, it was the more democratic agricultural interest that prevailed against free trade principles when, after the Franco-Prussian war of 1870, extra revenue had to be found, and French agriculture felt the pressure of the cheap American imports that depressed agriculture in England. France being more an agricultural than an industrial country, the agricultural vote carried the day; and, high protection being granted to agriculture, it could not be refused to manufactures. That was no result of wise national deliberation; it was a submission to a political combination of interests. That it has meant industrial gain to France, few Frenchmen pretend. In Canada, again, the interests of the mass of the population are so clearly in favour of free trade, most of them having nothing to gain and some-

thing to lose from a tariff. In 1896, Sir Wilfrid Laurier was actually put in power on a free-trade policy; and it was the irresistible pressure of the financial and banking interests of Canada, which were heavily committed to the maintenance of a tariff system by investments in protected concerns, that baffled him. A menace of wholesale bankruptcy met the demand that an unsound fiscal system should be overthrown.

When selfish interest thus triumphs as between the organised few and the unorganised many within a nation, it will obviously not scruple to seek the disadvantage of any other nation collectively. Devoid of the public spirit which seeks the good of the majority at home, it has naturally small concern for the well-being of the world in general. The exploiting of credulous patriotism in home affairs is a good training for the exploitation of it against other nations.

It is not only by way of fiscal policy, of course, that enterprising egoism fights for its own hand; and there have been many causes of war besides commercial jealousy. But that has been indirectly the means of preventing peaceful development. In most international disputes men are thinking of their gain even when they are fighting on another pretext; and when nations are habitually irritating each other by setting up tariffs with the express purpose of curtailing each other's trade, even the fact that they do not succeed on any large scale creates a spirit of jealousy which permits

other causes of quarrel to operate more easily. It was the principle of closed markets, and the desire for such markets, that led France in the last generation to take the malicious advice of Bismarck and seize the control of Tunis, thereby driving Italy into the arms of Germany and Austria ; and had not Austria been Germany's ally in the World War, Italy might have remained the ally of Germany. Finally, it was the desire for closed markets that fomented German jealousy of England, with her ever-increasing wealth from free trade, beside which the taxable wealth of Germany was found to be relatively so small. There can be little doubt that a sense of financial insecurity, setting up a desire for wealth to be wrung by war indemnities, operated in stampeding the mass of the German trading class to the side of the regular militarist party in 1914.

During the war, largely by means of the doctrines of President Wilson, who is a free trader, there arose for many the hope of a new international world in which commercial malice should not be allowed to restrain goodwill among the nations by tariff machinery. Not a little of the general American sympathy with us in the early stages of the war was due to American experience of the trickeries of the German fiscal authorities in depriving American trade of the fair benefits of the commercial agreements between the two countries. Mr. Gerard has told how these trickeries operated. Among the Allies, men began to feel that the

spirit of comradeship ought not to be lost; that it ought to be cherished and developed by the establishment of the League of Nations, the great new instrument for the maintenance of the world's peace. The good working of such a League, they felt, would not be easily compatible with a revival of the old devices by which nations sought to injure each other in trade.

The great difficulty was, of course, that nations which have established protective systems find it hard to get rid of them; partly because of the derangement of trade that is to be apprehended from so serious a change as the withdrawal of crutches from industries that have long gone upon them. But there were new countervailing forces. For one thing, both France and the United States have now fully established the system of taxation of incomes, which enables them to derive revenue for which they formerly relied upon the much less just machinery of import duties. For another thing, trade in all countries has been so radically detached from pre-war conditions that all might now be said to start on an equality. Britain has now no longer the advantages of exceptionally low costs of production and of being the great creditor nation. American trade, therefore, might be very well prepared to face, if not at once a system of complete free trade, at least one of low tariffs. In France there is much feeling in favour of experimental free trade. In Germany, as we have noted, there is actual official promise of it.

It is at this juncture that Britain, hitherto the banner-bearer and ensample of the free-trade principle, is being headed, under entirely abnormal political conditions, in the opposite direction. If that reversal should be consummated, the discouragement to the new aspirations in most other countries will probably be sufficient for a long time to defeat the hopes of the advocates of the League of Nations.

That misfortune to a world so sorely in need of new securities for peace will be bad enough. But if we simply have regard to the prosperity and solvency of our own country, we have such urgent cause for effort that no other consideration need weigh with us in the matter. Even with a Germany still shackled by protectionism, our task of recuperation would be hard enough. With a Germany unshackled while we have put on fetters it will be simply hopeless. Let the nation then look to its life.

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